kotak® Institutional Equities

Cement

India

NEUTRAL

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UPDATE

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Cement prices—cartel or can't tell. We are perplexed by the Rs40-50/bag increase over the past few months in cement prices, despite sluggish demand (4.6% YTD) and low utilization rates (77% YTD). The trend affirms the strength of the 'industry discipline' against all odds. Accordingly we review our stance (and earnings)—as such a sharp price increase, although difficult to explain, could help overcome several obstacles including rising cost of production and moderate volume growth.

Unprecedented price rise compels a review of sector outlook

An unprecedented price increase of Rs40-50/bag over the past few months and a strengthening price trend over the past six months compels a review of our sector stance—we recommend that investors selectively look at stocks where the current valuation multiples do not capture the benefits of the price rise. We note that the price increase has been broad-based, starting from the South in the month of September and percolating to other regions in subsequent months.

'Efficiency' of supplies difficult to explain—could well sustain in the near term

The current price increase demonstrates the strength of the 'industry discipline' as it comes despite (1) sluggish demand growth of 4.6% YTD with consumption in South declining 5% YTD, and (2) widening demand-supply gap as utilization levels have dropped to historical lows of 77%. Increased consolidation in the industry may have helped the prices as the market share of the Top-five players improved by ~380 bps (FY11YTD) on an all-India basis. We note that 'industry discipline' could maintain the firmness in price trends through the peak construction season as the pace of capacity addition slows down, and incremental supply pressures recede.

Rising input costs and sluggish demand growth could pare gains

Rising prices of imported coal, crude oil and lack of availability of domestic coal could partially offset the benefits of improving realizations, while continued sluggishness in cement demand could have the double impact of (1) lower volume sales and corresponding leverage impact, as well as (2) breaking the 'market discipline' as industry participants try to capture incremental volumes of a stagnant volume pie.

Upgrade Ultratech, Grasim and remain cautious on India Cement, Shree Cement

We recommend that investors look at Ultratech and Grasim given their reasonable valuations (4-7X FY2012E EBITDA) and relative upside. We maintain our cautious stance on region-specific players such as India Cement and Shree Cement and relatively expensive names such as ACC and Ambuja (8.5X FY2012E EBITDA).

Company data and valuation summary

Company	Market cap. (US$ mn)	CMP (Rs) 11-Apr	Target price (Rs)	Rating	P/E (X) 2009	2010	2011E	2012E	2013E	EV/EBITDA (X) 2009	2010	2011E	2012E	2013E
ACC	4,568	1,097	1,000	REDUCE	19.5	13.2	21.2	16.0	13.3	11.8	8.1	12.3	8.6	6.8
Ambuja Cements	5,027	149	130	SELL	20.7	18.6	18.8	16.1	12.8	13.7	12.3	11.2	8.4	6.4
Grasim Industries	5,149	2,534	3,000	BUY	10.6	8.4	11.2	7.3	6.2	7.1	5.6	6.6	4.2	3.2
India Cements	676	99	100	REDUCE	5.6	9.9	27.3	7.7	7.1	5.3	6.4	12.2	5.4	4.3
Jaiprakash Associates	4,502	92	135	BUY	45.8	52.4	18.2	16.3	17.0	20.5	22.4	12.9	11.3	10.9
Shree Cement	1,509	1,955	2,000	REDUCE	11.2	9.4	29.3	10.8	9.0	7.4	4.6	7.9	4.1	2.9
UltraTech Cement	6,555	1,080	1,250	BUY	13.7	12.2	20.8	11.9	9.5	8.5	6.8	10.6	6.5	4.9

Source: Company, Bloomberg, Kotak Institutional Equities estimates

INSIDE

Murtuza Arsiwalla
murtuza.arsiwalla@kotak.com
Mumbai: +91-22-6634-1125

Shubham Satyarth
shubham.satyarth@kotak.com
Mumbai: +91-22-6634-1320

Kotak Institutional Equities Research

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The prices in this report are based on the market close of April 11, 2011.

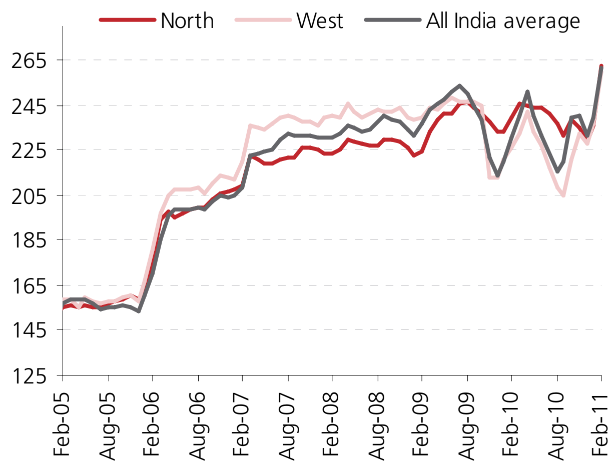
UNPRECEDENTED PRICE RISE COMPELS REVIEW OF SECTOR OUTLOOK

An unprecedented price increase of Rs40-50/bag on an all-India basis in the recent past compels us to re-visit our stance on the cement sector. We note that the CMP of cement stocks do not entirely factor the improvement in realizations that could sustain during the peak construction season, but penalize the companies for rising input costs and sluggish demand growth. We recommend that investors look at Ultratech and Grasim given their reasonable valuations (4-7X FY2012E EBITDA) and relative upside, but avoid region-specific players such as India Cement and Shree Cement and relatively expensive names such as ACC and Ambuja.

Unprecedented price increase of Rs40-50/bag

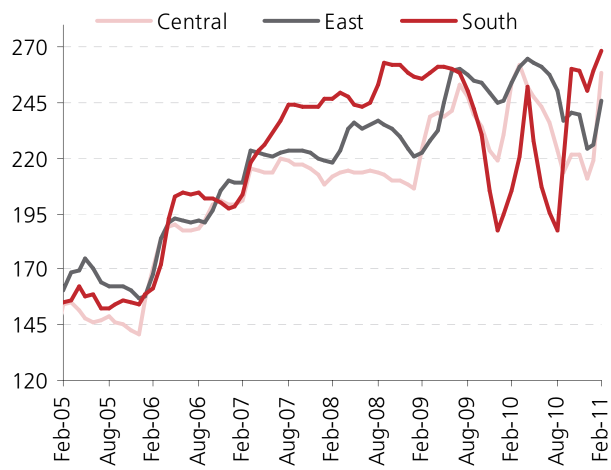
All-India cement prices have risen by Rs40-50/bag over the past few months with prices in February alone rising by Rs30-40/bag across regions. We note that the price increase is much higher than the cost increase and will therefore translate into higher profitability for cement companies over the next few quarters. Exhibits 1 and 2 highlight the region-wise price movement over the past few months, especially in the month of February.

Exhibit 1: Sharp pan-India rebound in prices
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 2: Prices in South are ahead of all other regions
Regional cement prices (Rs per 50 kg bag)



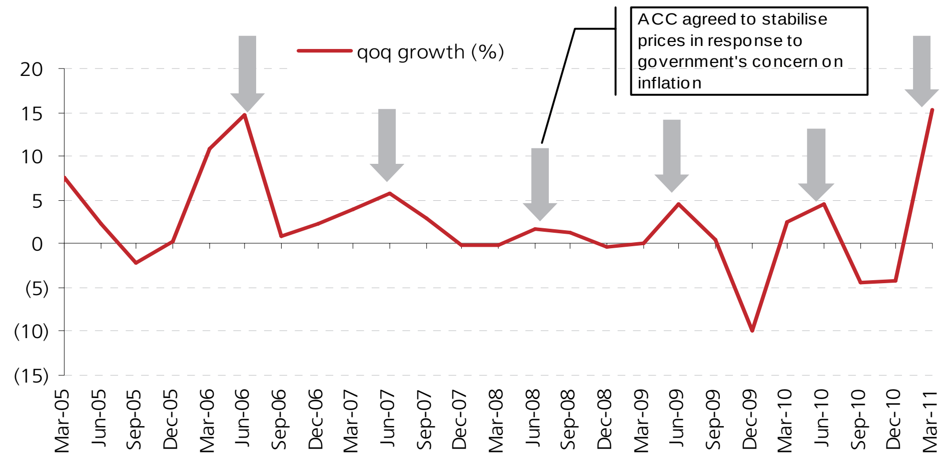
Source: CMA, Kotak Institutional Equities

'June' factor—historical trends show large pricing benefit precedes monsoons

Our study of historical price trends suggests that the seasonal factor will likely allow for the current strength in prices to sustain and peak by June, followed by a period of softening in the monsoons season. The current price rise follows a period of high volatility, especially in South India, and hence raises questions on the sustenance of the price trend in the absence of improved volume growth and correspondingly widening demand-supply gap.

Exhibit 3: Historical trends suggests that the seasonal factor will allow for the current strength in prices to sustain

Sequential change in cement prices, 4QFY05-3QFY11 (%)



Source: Company, Kotak Institutional Equities

Valuation multiples attractive for select names, priced in for others

Average trading multiples for cement companies under coverage have contracted from 8-9X FY2012E EBITDA to 4-7X currently for companies like Ultratech and Grasim, and reflect mid-cycle multiples in comparison to the historical trading range of 5-9X. We prefer Grasim and Ultratech on account of its reasonable valuations, superior profitability (EBITDA/ton of Rs722/ton compared to Rs457/ton for ACC and Rs637/ton for Ambuja in 3QFY11) and incremental contribution from VSF business for Grasim. Valuations for frontline stocks such as ACC and Ambuja are not reasonable (8.5X on FY2012E EBITDA versus historical average of 8X)

On capacity metrics, cement companies are trading at an average of US$122/ton on FY2012E capacity, in comparison to replacement cost of US$120/ton. Traditionally, cement companies have traded near replacement cost during trough periods and at a premium to replacement cost during peak earnings. The disparity between EV/ton of production and EV/ton of capacity takes cognizance of lower utilizations rates and a staggered ramp-up of production from new capacities.

Exhibit 4: Comparative valuation summary, March fiscal year-ends, 2009-13E

	Market cap	CMP (Rs)	Target		EPS (Rs)					P/E (X)				
Company	(US$ mn)	11-Apr	price (Rs)	Rating	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
ACC	4,568	1,097	1,000	REDUCE	56	83	52	68	83	19	13	21	16	13
Ambuja Cements	5,027	149	130	SELL	7.2	8.0	7.9	9.3	11.6	21	19	19	16	13
Grasim Industries	5,149	2,534	3,000	BUY	239	301	227	347	409	11	8	11	7	6
India Cements	676	99	100	REDUCE	18	10	4	13	14	6	10	27	8	7
Jaiprakash Associates	4,502	92	135	BUY	2.0	1.7	5.1	5.6	5.4	46	52	18	16	17
Shree Cement	1,509	1,955	2,000	REDUCE	175	208	67	181	218	11	9	29	11	9
UltraTech Cement	6,555	1,080	1,250	BUY	79	88	52	91	114	14	12	21	12	10

	EV/EBITDA (X)					EV/ton of production (US$)					EV/ton of capacity (US$)				
Company	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
ACC	11.8	8.1	12.3	8.6	6.8	204	197	194	167	142	200	185	151	133	123
Ambuja Cements	13.7	12.3	11.2	8.4	6.4	276	252	226	198	177	250	234	205	174	166
Grasim Industries	7.1	5.6	6.6	4.2	3.2	414	383	158	124	95	222	197	123	113	96
India Cements	5.3	6.4	12.2	5.4	4.3	114	104	112	93	71	105	87	85	69	55
Jaiprakash Associates	20.5	22.4	12.9	11.3	10.9	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Shree Cement	7.4	4.6	7.9	4.1	2.9	184	148	139	108	87	170	152	121	102	84
UltraTech Cement	8.5	6.8	10.6	6.5	4.9	937	690	193	148	127	167	126	141	130	121

Source: Kotak Institutional Equities estimates

Exhibit 5: CROCI of UltraTech to improve post merger with Grasim
CROCI and profitability of cement companies, March fiscal year-ends 2007-13E (UltraTech and India Cement) and December fiscal year-ends, 2006-12E (ACC and Ambuja)

	2007	2008	2009	2010	2011E	2012E	2013E
ACC							
Cash return margin (%) [A]	23	22	18	23	17	18	18
Asset turnover (X) [B]	1.3	1.5	1.5	1.5	1.3	1.3	1.3
CROCI (%) [A] X [B]	**29**	**32**	**27**	**35**	**21**	**23**	**24**
Ambuja Cement							
Cash return margin (%) [A]	28	23	20	19	19	18	20
Asset turnover (X) [B]	1.3	1.1	1.1	1.2	0.9	1.0	1.0
CROCI (%) [A] X [B]	**37**	**26**	**22**	**24**	**18**	**18**	**21**
Ultratech							
Cash return margin (%) [A]	21	22	21	21	16	18	19
Asset turnover (X) [B]	1.0	1.1	0.9	0.9	0.8	1.0	1.0
CROCI (%) [A] X [B]	**21**	**25**	**18**	**18**	**13**	**18**	**18**
India Cement							
Cash return margin (%) [A]	33	35	22	16	11	15	15
Asset turnover (X) [B]	0.5	0.6	0.5	0.5	0.5	0.6	0.7
CROCI (%) [A] X [B]	**15**	**19**	**12**	**8**	**5**	**9**	**10**

Notes:
Cash return = (PBT-Other Income+Interest)*(1-ETR)+Depreciation
Asset turnover (X) = Revenue/(Gross block+NCA-cash)

Source: Company, Kotak Institutional Equities estimates

Revise earnings to factor price hike and cost inflation

Our earnings estimate builds in a 12% yoy increase in cement prices largely to reflect the recent price spike, single-digit volume growth and increase in profitability. Players with a higher dependence on domestic coal and railway freight are less susceptible to vagaries of global commodity prices. ACC amongst our coverage universe has a healthy balance of domestic coal and railway dispatches. Exhibit 6 highlights the key operating assumptions for cement companies under our coverage.

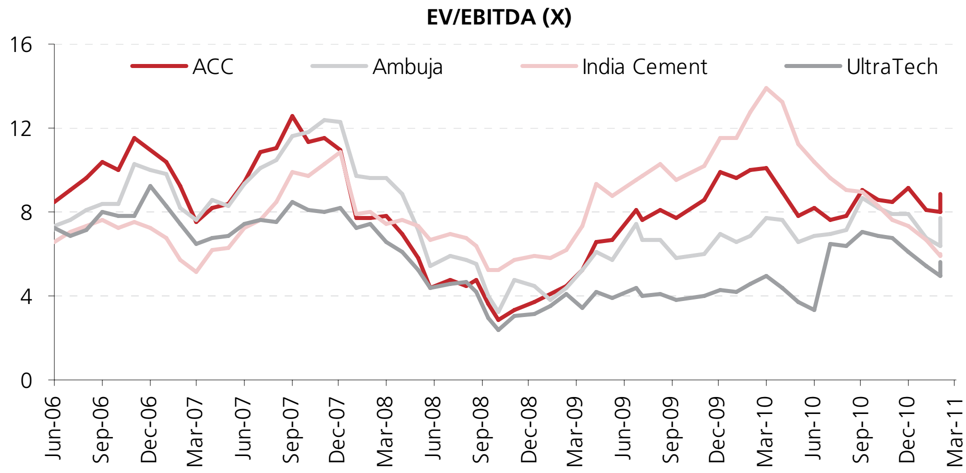
Exhibit 6: Our earnings estimate build in a 12% yoy increase in cement prices largely driven by the recent price spike
Key operational assumption of cement companies under coverage, March fiscal year-ends 2010-12E (UltraTech and India Cement) and December fiscal year-ends, 2009-11E (ACC and Ambuja Cements)

	ACC			Growth (%)		Ambuja Cements			Growth (%)	
	2009	2010	2011E	2011E	2010	2009	2010	2011E	2011E	2010
Sales (mn tons)	21.7	21.4	23.0	8	(2)	18.8	20.0	22.0	10	6
Realization (Rs/ton)	3,696	3,613	3,958	10	(2)	3,766	3,695	4,130	12	(2)
Operating costs (Rs/ton)	2,554	2,863	3,045	6	12	2,772	2,783	3,072	10	0
Profitability (Rs/ton)	1,142	750	913	22	(34)	993	912	1,058	16	(8)

	UltraTech Cement			Growth (%)		India Cements			Growth (%)	
	2010	2011	2012E	2012E	2011	2010	2011	2012E	2012E	2011
Sales (mn tons)	20.2	35.0	43.8	25	73	11.0	9.9	10.9	10	(10)
Realization (Rs/ton)	3,488	3,866	4,296	11	11	3,363	3,534	4,129	17	5
Operating costs (Rs/ton)	2,527	3,046	3,269	7	21	2,686	3,098	3,343	8	15
Profitability (Rs/ton)	961	820	1,027	25	(15)	677	436	787	80	(36)

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: EV/EBITDA charts based on 12-month rolling forward EBITDA



Source: Kotak Institutional Equities estimates

'EFFICIENCY OF SUPPLIES'—DIFFICULT TO EXPLAIN, IMPOSSIBLE TO IGNORE

The current price rise is primarily driven by the 'efficiency of supplies' maintained by industry participants, as (1) demand growth continues to remain sluggish (4.6% YTD), (2) is only partially explained by cost price increases, and (3) the demand-supply imbalance has not so far corrected. However, the magnitude of price increases over the past six months makes it difficult to ignore the current price trend as a temporary blip. A revival of demand with a receding pace of capacity additions could further strengthen cement prices as the pace of incremental capacity addition recedes in the medium term.

25 mtpa of capacity to be added on extant base of 276 mtpa

The Indian cement sector has so far added 14 mtpa (as of February 2011) of incremental capacity in FY2011, compared to 40 mtpa added in FY2010 and 21 mtpa in FY2009, and we estimate incremental installation of ~25 mtpa up to FY2012E and 14 mtpa in FY2013E, respectively. The magnitude of capacity additions dwarfs average incremental demand of 14 mtpa over the last three years, and will likely continue to have a bearing on industry utilization rates which have come down to 77% (YTDFY11) from 86% (YTDFY10) a year ago. We note that despite a deteriorating demand-supply environment, cement prices are currently Rs20/bag higher than the beginning of the year, which prompts us to look at factors beyond industry utilization rates that have an impact on pricing action.

Exhibit 8: Capacity addition rate to slow down leading to utilization levels of over 80% in FY2013E
Demand, supply and utilization levels, March fiscal year-ends, 2009-13E

	2009	2010	2011E	2012E	2013E
All-India					
Effective capacity (mtpa)	205	234	269	295	308
Incremental capacity (mtpa)	**32**	**29**	**35**	**27**	**12**
Growth (%)		14.2	**14.9**	**10.0**	**4.2**
Cement consumption (mn tons)	178	196	207	227	248
Incremental consumption (mn tons)	**14.4**	**18.4**	**10.9**	**19.4**	**21.3**
Growth (%)		10.4	**5.6**	**9.4**	**9.4**
Cement production (mn tons)	181	200	209	229	251
Incremental production (mn tons)		**19.0**	**8.2**	**20.4**	**22.4**
Growth (%)		10.5	4.1	9.8	9.8
Capacity utilization (%)	**88.6**	**85.7**	**77.6**	**77.5**	**81.6**
Region-wise utilization					
North	86	92	82	84	88
Central	91	99	90	85	87
East	87	82	81	87	91
West	89	87	79	77	80
South	89	76	67	68	73
All India	**89**	**86**	**78**	**77**	**82**

Source: CMA, Kotak Institutional Equities estimates

Consolidation of industry participants—regional split more favorable

The top-five cement players contribute 47% to overall industry capacity, though the regional split looks more favorable with the top-five accounting for near-70% market share in four out of the five regional markets (barring South India). Industry consolidation reflects in less volatility in cement prices. Prices in North India have remained more stable despite aggressive capacity additions, whereas prices in South have moved in a range of ±Rs80/bag over the past twelve months.

Exhibit 9: South remains the least consolidated market with the top-five players accounting for only 50% market share
Analysis of market share and industry structure based on installed capacity as on February 28, 2010 (mtpa)

All India			North			Central		
Company	Capacity (mn tpa)	Market share (%)	Company	Capacity (mn tpa)	Market share (%)	Company	Capacity (mn tpa)	Market share (%)
Ultratech	49	18	Shree Cement	13	20	Jaiprakash	12	31
ACC	25	9	Ultratech	11	17	Ultratech	6	15
Ambuja	21	8	Ambuja	9	13	Prism	6	15
Jaiprakash	19	7	Binani	6	9	ACC	5	12
India Cements	16	6	ACC	6	9	Century	4	10
Top-5	**130**	**47**	**Top-5**	**46**	**69**	**Top-5**	**31**	**85**
Others	147	53	Others	21	31	Others	6	15
Total	**276**	**100**	**Total**	**66**	**100**	**Total**	**37**	**100**

East			West			South		
Company	Capacity (mn tpa)	Market share (%)	Company	Capacity (mn tpa)	Market share (%)	Company	Capacity (mn tpa)	Market share (%)
Ultratech	7	19	Ultratech	13	34	India Cements	13	13
Lafarge	7	19	Ambuja	8	21	Ultratech	13	12
OCL India	5	15	Jaiprakash	3	7	Madras Cements	12	12
ACC	5	14	Mehta	3	7	Dalmia Cements	9	9
Ambuja	3	9	Sanghi Industries	3	7	ACC	9	9
Top-5	**26**	**76**	**Top-5**	**29**	**77**	**Top-5**	**55**	**54**
Others	8	24	Others	9	23	Others	46	46
Total	**35**	**100**	**Total**	**37**	**100**	**Total**	**101**	**100**

Source: CMA, Kotak Institutional Equities

We also highlight the increasing prominence of Tier-II cement players (players with capacity above 8-9 mn tons excluding ACC, Ambuja and UltraTech). Average capacity of these Tier-II players has increased from ~5-6 mtpa in FY2006 to 14 mtpa currently making them more conscious of overall pricing dynamics and less price destructive.

Exhibit 10: Increasing dominance of Tier-II cement players
Installed capacity of selected cement manufacturers, March fiscal year-ends, 2006-2011 (mn tons)

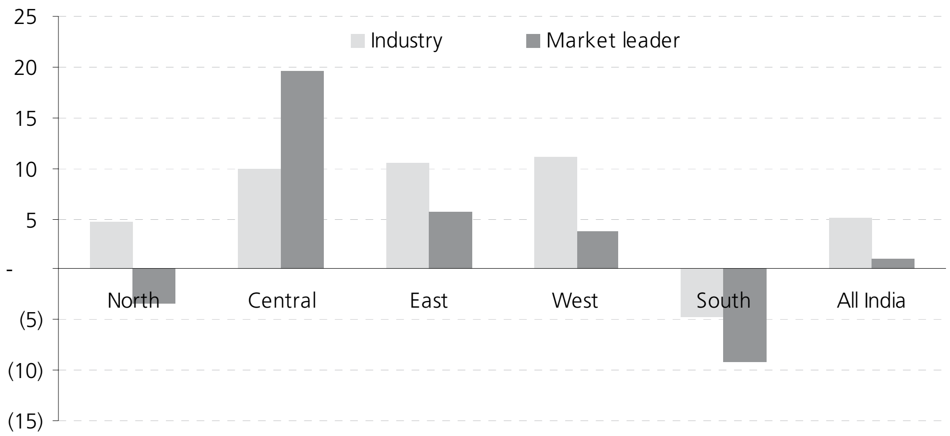
	2006	2007	2008	2009	2010	Current
Tier-I						
ACC	19	20	20	22	25	25
Ambuja	15	15	18	18	21	21
UltraTech (inclding Grasim)	31	31	36	37	49	49
Total Tier-I	**65**	**66**	**74**	**78**	**95**	**95**
Tier-II						
Jaiprakash	9	9	10	10	17	19
India Cement	9	9	10	11	14	16
Shree Cement	5	5	9	9	9	13
Dalmia Cement	1	4	4	4	9	9
Madras Cement	5	5	5	9	11	13
Total Tier-II	**29**	**31**	**38**	**43**	**60**	**70**
Others	66	68	77	90	107	109
Total	**160**	**166**	**189**	**210**	**262**	**274**

Source: CMA, Kotak Institutional Equities

Volume versus pricing debate—weighed in favor of the latter

The economics of sacrificing incremental volumes, in favor of incremental pricing usually favors the latter for large cement manufacturers, as better pricing benefit will accrue to entire capacity base at the cost of losing marginal volumes. Our interaction with industry participants suggests, that controlled supply led by large cement players allows for pricing discipline to set into the system. This reflects in lower-than-industry volume growth by market leaders that have allowed for pricing stability in the various regions as depicted in Exhibit 11, despite a worsening demand-supply situation.

Exhibit 11: Market leaders have selectively registered lower-than-average volume growth
Region-wise volume growth of Industry and the market leader in the segment, April 2010-Jan 2011 (%)



Source: CMA, Kotak Institutional Equities

Delayed ramp-up of new capacities reduces efficacy of supply overhang

Greenfield cement capacities commissioned during the past year operated at an average utilization rate of 46%, reducing the effective increase in cement supplies available to the market. We note that cement capacities take approximately 6-9 months after commissioning before attaining full production capacity. We highlight that the demand-supply imbalance would look less potent if we were to extrapolate the delay in ramp-up experienced in recently commissioned capacities for capacities to be commissioned over the next two years. Exhibit 13 highlights regional split of utilization rates assuming timely ramp up of capacities as well as utilization rates assuming a six-month lag effect of capacity addition.

Exhibit 12: Greenfield capacities commissioned over the past year are operating at 46% average utilization levels
Production and utilization levels of green-field capacities commissioned

Company	Plant	Region	State	Capacity (mtpa)	Commissioning	Production ('000 tons)	Utilization (%)
Jaiprakash	Roorkee	Central	Uttar Pradesh	1.2	Jan-10	731	73
Jaiprakash	Wanakbori	West	Gujarat	1.5	Jan-10	539	43
Madras Cements	Kolaghat	East	West Bengal	1.0	Feb-10	136	16
Jaiprakash	Bagheri	North	Himachal Pradesh	1.8	Mar-10	1,563	107
Grasim	Kotputli	North	Rajasthan	3.1	Mar-10	1,229	43
Grasim	Aligarh	Central	Uttar Pradesh	1.3	Mar-10	346	29
JK Cement	Mudhol (JK Muddapur)	South	Karnataka	3.0	Mar-10	1,116	47
India Cements	Mahi	North	Rajasthan	1.8	Oct-10	148	25
				14.7		5,809	46

Source: CMA, Kotak Institutional Equities

Exhibit 13: Utilization levels to increase by 300 bps in FY2012E if proposed capacities get delayed by six months
Utilization levels assuming normal and a six-month delay in proposed capacity addition, March fiscal year-ends, 2011-13E (%)

	Timely ramp-up			Six month delay		
	2011E	2012E	2013E	2011E	2012E	2013E
North	82	84	88	82	85	91
Central	90	85	87	91	88	90
East	81	87	91	81	87	93
West	79	77	80	80	81	79
South	67	68	73	67	70	74
All India	**78**	**77**	**82**	**78**	**80**	**83**

Source: Kotak Institutional Equities estimates

Cramped transportation infrastructure could further restrict effective supply

With Indian Railways operating at over 100% utilization levels, availability of wagons has been a key concern for not just cement but for all the sectors dependent on rail despatch. In our view, this could further reduce the effective supply as cement plants might be forced to scale down on production in absence of necessary evacuation infrastructure.

Exhibit 14: Indian Railways has been running at more than 100% utilization
Freight capacity and utilization of Indian Railways, March fiscal year-ends, 2003-2009

	2003	2004	2005	2006	2007	2008	2009
Demand							
Freight (mn tons)	**519**	**557**	**602**	**667**	**726**	**794**	**833**
Supply							
Wagon (Nos)	214,760	227,752	222,379	207,983	207,719	204,034	211,763
Average wagon capacity (tons)	46.5	46.8	47.7	47.9	48.4	50.2	52.4
Wagon capacity (mn tons)	10	11	11	10	10	10.2	11.1
Wagon turnaround time (days)	7.0	6.7	6.4	6.1	5.5	5.3	5.2
Freight capacity (mn tons)	**521**	**581**	**605**	**596**	**667**	**705**	**779**
Utilization (%)	**100**	**96**	**100**	**112**	**109**	**113**	**107**

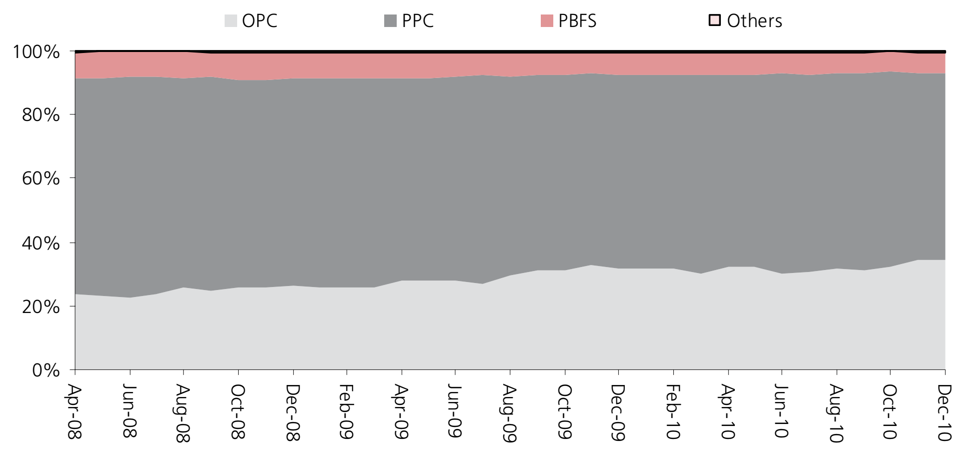
Source: Ministry of Railways, CRISIL, Kotak Institutional Equities estimates

Blending of cement, availability of fly-ash and impact on cement realizations

We note that the share of OPC in the overall mix has increased from 24% to 34% in the past 18 months which leads to reduction in effective supplies as OPC requires a higher blending as compared to PPC. We note that government project and manufacturers of RMC have a preference for OPC over PPC, though housing projects (contributing ~70% of cement demand) are indifferent to use of PPC and OPC. OPC generally commands a premium of Rs5-10/bag over PPC, which has widened of late.

If one were to view the choice between OPC and PPC from the manufacturers perspective, PPC results in a saving of Rs2-4/bag of cement due to saving on account of (1) lower clinker consumption resulting in corresponding saving of power and fuel costs, and (2) saving on freight costs as lower quantity of clinker is transported to the split-grinding unit, which is closer to the point of consumption.

Exhibit 15: Share of OPC has increased from 24% to 34% in the past 18 months
Break-up of cement production by type, April 2008-December 2010 (%)



Source: Company, Kotak Institutional Equities

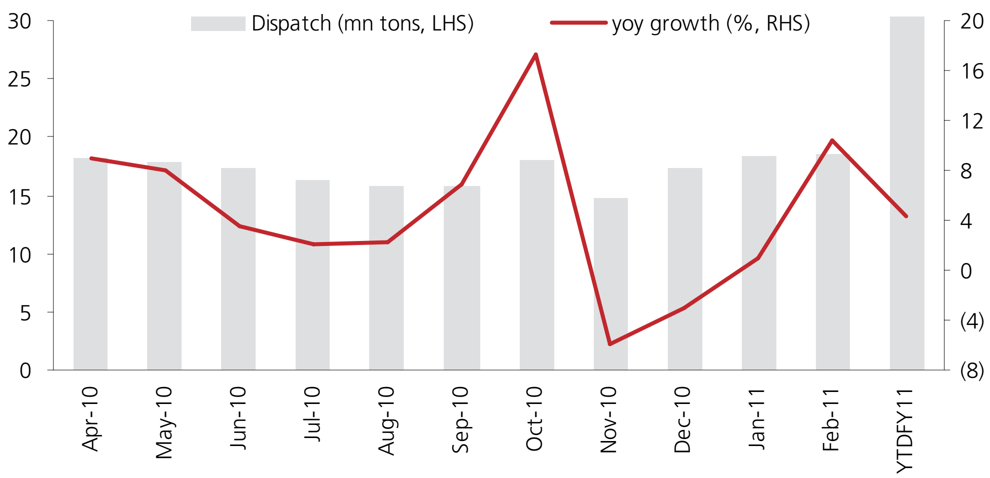
RISING COSTS AND SLUGGISH DEMAND COULD PARE GAINS

Rising input costs and a sluggish demand growth could potentially pare the gains from rising cement prices. Sluggish volume growth for the industry could also prolong the reversal of a demand-supply imbalance as well as break the current 'market discipline' as industry participants scramble for a shrinking volume pie. We note that power and fuel and freight costs together account for ~50-55% of the cost of production and are vulnerable to strengthening commodity price both in the domestic as well as international markets.

Sluggish demand growth—4.6% YTD not encouraging

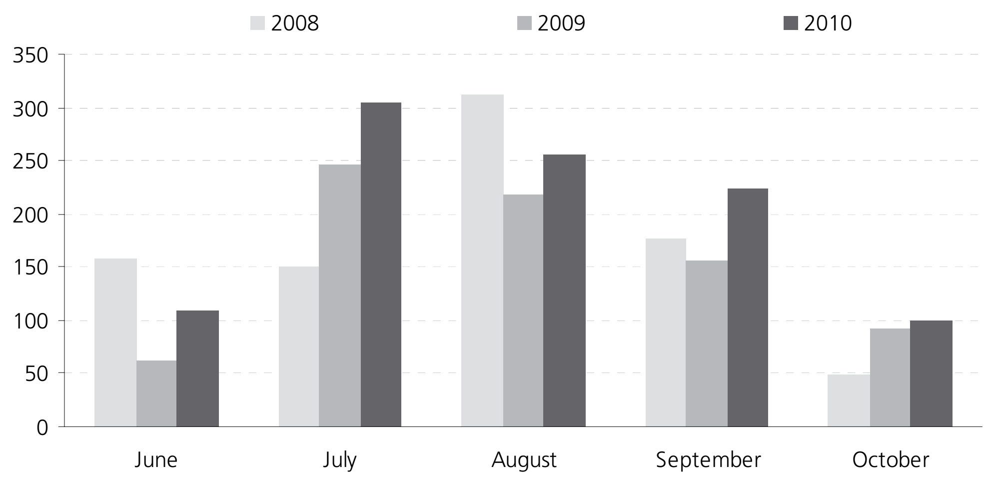
The absence of volume growth (4.6% YTD) makes us more watchful of the worsening demand-supply gap. Although we are optimistic of a receding rate of capacity addition, muted volume growth would mean the current under-utilization of capacities could sustain for a longer period of time and expose the vulnerability of 'market discipline' (although it has not happened so far). However, we highlight that low YTD volume growth has partially been a function of a prolonged and staggered monsoon that extended well into the month of November 2010. Exhibit 17 below highlights that monsoon in CY2010 was uncharacteristically prolonged, extending well into winter months.

Exhibit 16: Volume growth has been muted so far
Monthly despatch and growth, March fiscal year-ends, 2010 (mn tons, %)



Source: CMA, Kotak Institutional Equities

Exhibit 17: Monsoons in CY2010 was uncharacteristically prolonged extending well into winter months
Monthly rainfall in India, June-Oct, 2008-10 (mm)



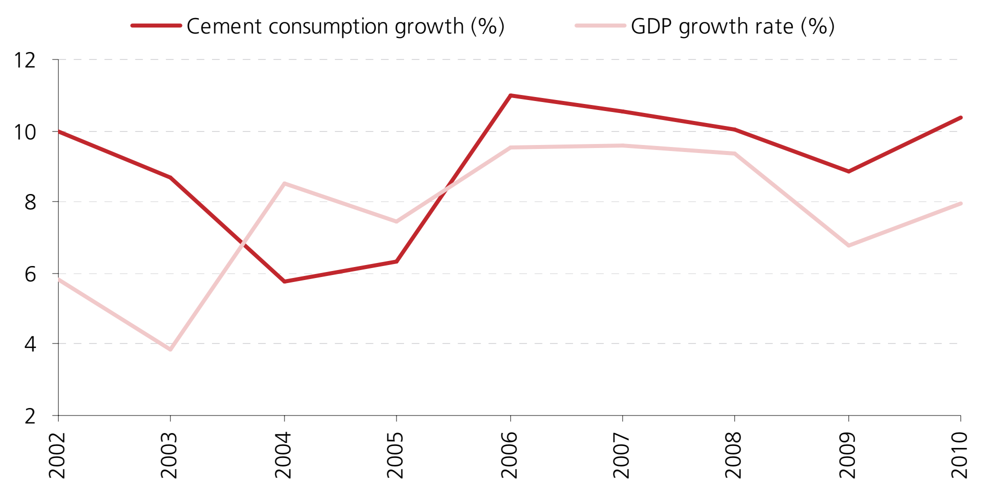
Source: CMIE, Kotak Institutional Equities

GDP growth remains our best indicator for consumption growth

We estimate cement consumption to grow by 9.5% in FY2012E based on expectations of lower GDP growth of 8.1%. We note that cement consumption growth has a co-efficient of 1.2-1.3X with GDP growth, and in the absence of any available data on constituents of cement demand; we continue to peg our growth estimate to expectations for GDP growth. Historical trends suggests that seven out of the last 10 years have seen cement consumption grow at ~10%, while only three years (including FY2011E) had single-digit consumption growth.

Exhibit 18 charts the growth in cement consumption and corresponding growth in GDP over the past few years.

Exhibit 18: Cement consumption growth has been 1.3X GDP growth in the past 10 years
GDP and cement consumption growth rates, March fiscal year-ends, 2002-2010 (%)

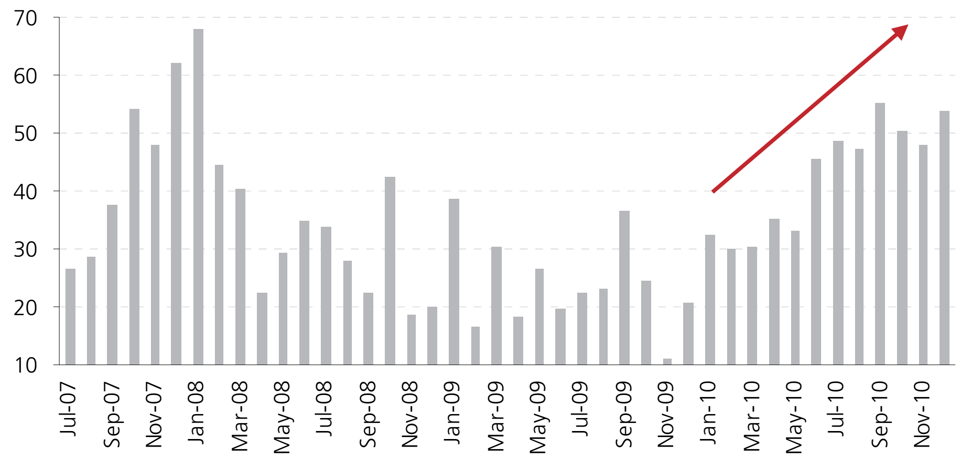


Source: Company, Kotak Institutional Equities

Housing demand—beginning to show signs of a revival

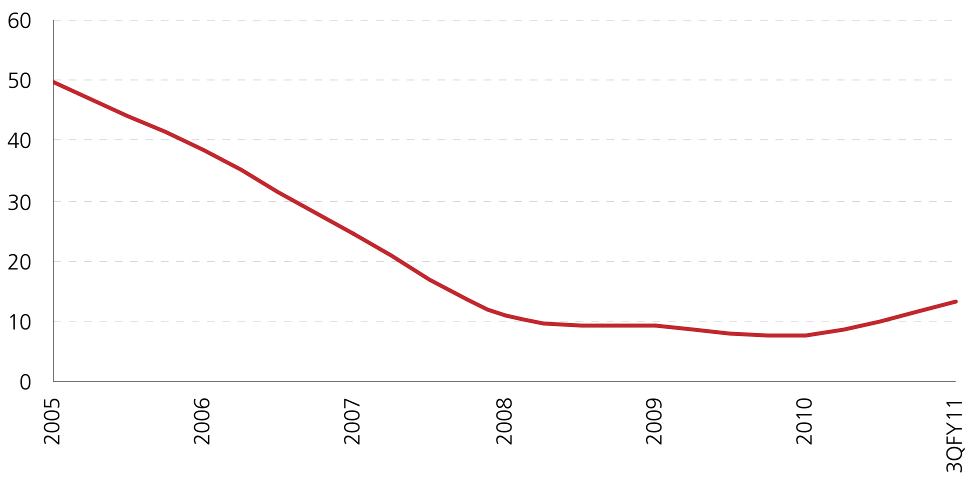
Our interaction with industry participants suggest that housing contributes upwards of 50-60% of the overall consumption of cement in the country. There is not enough data available to validate the contribution of housing on overall cement demand, though we analyze data from 'PropEquity' looking at housing demand across thirty-seven cities, which reflects the slowdown in launches between November 20008 and November 2009 (leading to sluggish demand with a twelve-month lag), and subsequent uptick in demand from January 2010, which will likely translate into construction activity from hereon. Exhibit 19 shows the data on launch activity in the housing sector, which are beginning to show signs of a revival in demand while Exhibit 20 highlights the growth in housing loan disbursement.

Exhibit 19: Real estate activity has revived in the past six months that should translate into cement demand with a lag
Real estate launches across thirty-seven cities in India (mn sq. ft)



Source: Prop Equity, Kotak Institutional Equities

Exhibit 20: Housing credit growth has revived over the past few months
Credit growth of housing loans, March fiscal year-ends (%)

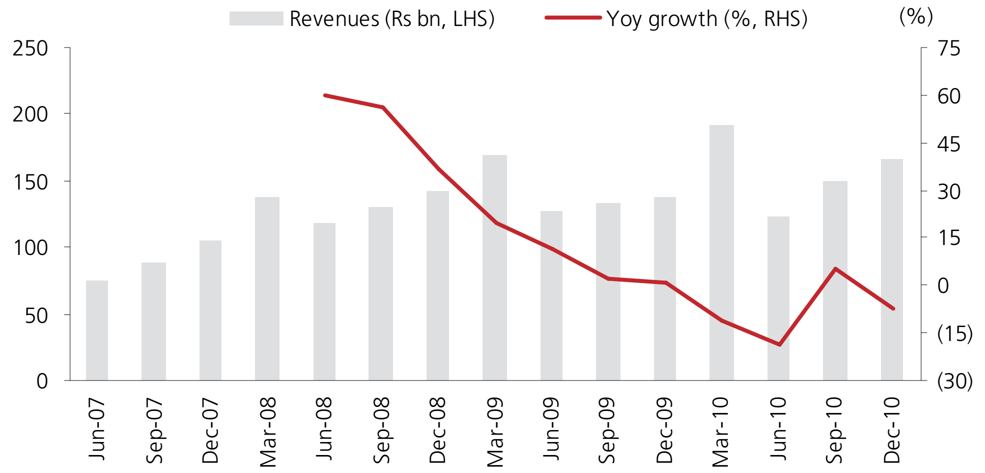


Source: RBI, Kotak Institutional Equities

Infrastructure capex, political stability and the impact of elections

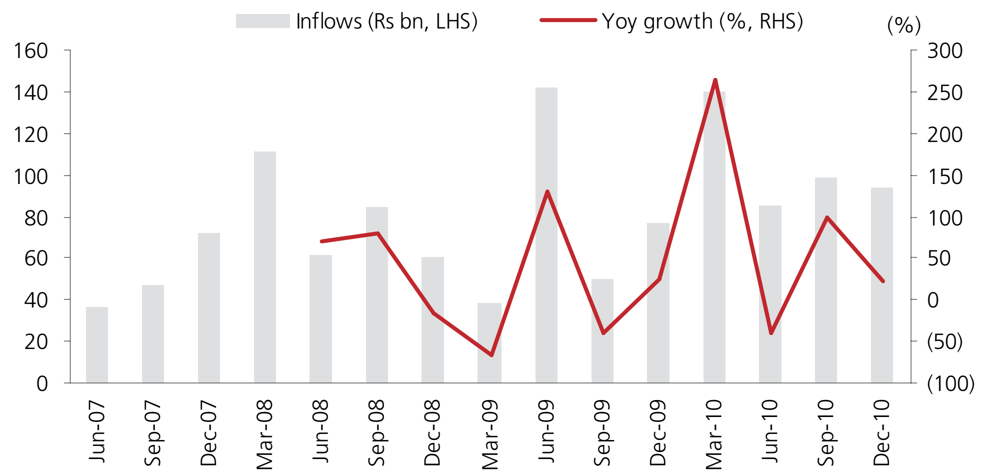
Infrastructure and industrial capex account for a minority 40% share of cement consumption, but could play the important contributor to consumption growth, or the lack of it. Exhibit 22 shows the slowdown in the capex cycle over the past 12 months and absence of incremental orders, which are not encouraging in terms of the capex cycle over the next 12 months.

Exhibit 21: Construction revenues of slowed down considerably over the past few quarters
Quarterly revenues for key construction companies, 1QFY08-3QFY11



Source: Company, Kotak Institutional Equities

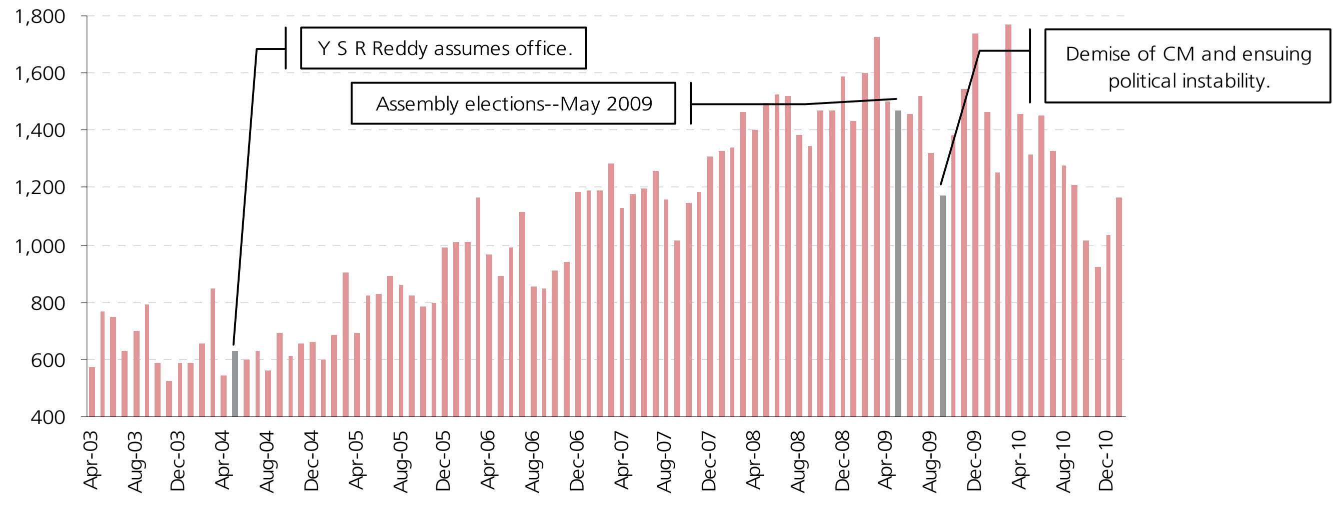
Exhibit 22: Absence of new order inflows remain disconcerting
Quarterly order booking trend for key construction companies, 1QFY08-3QFY11



Source: Company, Kotak Institutional Equities

We take the example of Andhra Pradesh as a case in point where investments in large infrastructure projects by a stable political regime helped the state clock strong double-digit growth. However, the demise of the Chief Minister and consequent political instability has slowed the momentum of government driven capex, as reflected in the sharp decline in consumption growth.

Exhibit 23: Andhra Pradesh saw rapid growth in cement consumption for the five years preceding current political instability
Monthly cement consumption in Andhra Pradesh ('000 tons)



Source: CMA, Kotak Institutional Equities estimates

Although empirically difficult to establish, high cement off-take preludes assembly elections, as elected legislators put to use accumulated/unutilized funds towards incomplete projects, driving consumption growth.

Rising prices of imported coal—US$120/ton as of March 2011

Prices of imported coal have increased by ~40% over the past six months, and are currently at US$120/ton. In our view, increased dependence on imported coal (due to constrained domestic supplies), will likely impact the earning of cement companies over the next few quarters.

Ambuja, India Cement and Ultratech have higher exposure to imported coal due to coastal location of their plants that facilitates more imports. India Cements, with ~80% of its coal being imported, will be the worst impacted while the impact will be muted for ACC due to its relatively lower dependence on imported coal. We highlight that a 10% increase in the price of imported coal could impact FY2012E EPS of India Cements by ~20%. We also note that Shree Cements, with almost 100% dependence on pet coke, will be severely impacted as pet coke (used for both cement and power capacities) prices tends to follow the pricing trends of global coal market.

Cement companies consume ~0.2 mn tons of thermal coal per ton of cement production—both directly in the kiln as well as indirectly through the captive power plant. Companies have varying exposures to imported coal, depending on the location of their plant and pricing and availability of coal. We note that due to an average 1-2 months of coal inventory and an additional lag between contract and delivery of imported coal, an increase in coal prices affects the income statement with a 3-6 month lag.

Exhibit 24: Coal prices surged in past few months though some softening has been witnessed lately
Richard Bay Index (US$/ton)

Source: Bloomberg, Kotak Institutional Equities

Exhibit 25: 10% increase in price of imported coal could impact FY2012E EPS of India Cements by 20%
Impact of 10% increase in price of imported coal on FY2012E EBITDA and EPS

	FY2012E EBITDA			FY2012E EPS		
	Base case	Revised	Impact (%)	Base case	Revised	Impact (%)
ACC	21,038	20,733	(1.4)	13,351	13,133	(1.6)
Ambuja	23,253	22,577	(2.9)	14,102	13,651	(3.2)
India Cements	8,600	7,486	(13.0)	3,932	3,181	(19.1)
Ultratech	44,985	43,602	(3.1)	24,942	23,997	(3.8)

Notes:
(a) Base case refers to our current FY2012E estimates while revised EBITDA and EPS are calculated assuming 10% inflation in imported coal prices

Source: Kotak Institutional Equities estimates

Paucity of domestic supplies at notified prices

Dependence on imported coal will likely increase for India from 68 mtpa currently as supplies from Coal India Ltd (CIL) and captive coal blocks will fall short of the overall requirement. For FY2011, CIL has achieved production of 300 mn tons as of December 2010, 65% of its original FY2011E target of 460 mn tons (which has now been revised downwards to 447 mn tons). Production and despatches have been hampered by environmental hurdles on development of new coal blocks and a cramped railway infrastructure. We note that as per the prevailing coal distribution policy, the power sector gets priority over cement and steel for allocation of domestic supplies, which makes the latter more dependent on supplementing coal requirement through high-priced coal imports.

Exhibit 26: India to have a negative coal balance of ~220 mn tons in FY2015E
Details of demand and supply for coal, March fiscal year-ends, 2002-12E (mn tons)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Demand								
Power	364	374	386	390	470	507	551	603
Other	144	174	195	217	241	269	296	326
Total	**507**	**549**	**581**	**607**	**711**	**775**	**847**	**929**
Supply								
CIL	375	401	415	426	453	475	497	516
SCCL	42	45	49	47	47	47	47	47
Others	37	45	49	54	65	84	110	143
Domestic	**454**	**490**	**513**	**527**	**564**	**607**	**654**	**705**
Gap	**(53)**	**(59)**	**(68)**	**(80)**	**(146)**	**(169)**	**(193)**	**(224)**

Source: Ministry of Coal, Kotak Institutional Equities estimates

Deregulation of domestic fuel prices and rising crude oil

CIL in February 2011 effected a price increase for sectors whose end-products are not governed by a regulated pricing regime. As such the cement and steel sector will likely have to pay a 30% premium over notified prices compensating for no price increase for the power sector (barring the notified price increase in MCL). We note that the cement sector consumes up to 47% of its requirement at notified prices from CIL. We note that amongst cement companies under our coverage, ACC has a higher dependence on domestic coal. Exhibit 30 highlights the mix for fuel sourcing for cement companies under our coverage.

The Government of India deregulated the prices of petrol on June 2010 though diesel prices have still not been deregulated. Diesel prices have remained stable over past six months. However, the current scenario of surging crude oil prices will likely result in a steep upward revision in prices. We note that companies with higher dependence on road transport will be more impacted by increase in diesel prices. Exhibit 29 highlights the dispatch mode of companies under our coverage.

Exhibit 27: 30% increase in prices across all consumers (excluding power, fertilizers and defence)
Grade-wise notified prices of CIL (Rs/ton)

	Old Prices							Revised Prices (non-power)						
	A	**B**	**C**	**D**	**E**	**F**	**G**	**A**	**B**	**C**	**D**	**E**	**F**	**G**
Basic price of run of mine non-long-flame non-coking coal														
ECL(for 8 units vide Annex II)	1,710	1,540	1,290	1,040	780	610	430	3,690	3,590	1,680	1,350	1,010	790	560
ECL / Mugma(for 16 units vide Annex IV)	1,970	1,750	1,500	1,240	990	740	480	3,690	3,590	1,950	1,610	1,290	960	620
ECL / Rajmahal	—	—	—	—	1,020	870	700	—	—	—	—	1,330	1,130	910
BCCL	1,660	1,510	1,250	1,040	830	660	470	3,690	3,590	1,630	1,350	1,080	860	610
CCL	1,620	1,460	1,220	1,000	790	630	450	3,690	3,590	1,590	1,300	1,030	820	590
NCL	1,490	1,340	1,100	920	740	580	430	3,690	3,590	1,430	1,200	960	750	560
SECL	1,310	1,220	1,050	880	730	570	430	3,690	3,590	1,370	1,140	950	740	560
MCL	1,280	1,130	950	790	620	480	350	3,690	3,590	1,370	1,140	950	740	560
Basic price of run of mine of other non coking coal														
ECL / Raniganj (for 104 units vide Annex I)	2,200	2,070	1,820	1,560	980	730	480	4,100	3,990	2,370	2,030	1,270	950	620
ECL / SP Mines (for 2 units vide Annex III)	2,370	2,120	1,860	1,610	1,080	830	580	4,100	3,990	2,420	2,090	1,400	1,080	750
CCL (for 7 units vide Annex VI)	1,940	1,740	1,500	1,250	990	750	510	4,100	3,990	1,950	1,630	1,290	980	660
CCL(for 16 units vide Annex VII)	1,820	1,650	1,410	1,180	-	-	-	4,100	3,990	1,830	1,530	-	-	-
WCL	1,600	1,520	1,410	1,330	1,090	860	650	4,100	3,990	1,830	1,730	1,420	1,120	850
SECL Premium Collieries Coal produced in Korea Rewa	1,610	1,520	1,300	1,110	870	630	440	4,100	3,990	1,690	1,440	1,130	820	570
Basic price of run of mine long-flame non-coking Coal														
ECL / Rajmahal	—	—	—	1,330	—	—	—	-	-	-	1,730	—	—	—
BCCL Long Flame Coal	1,850	1,680	1,430	1,210	—	—	—	4,100	3,990	1,860	1,570	—	—	—
NCL Long Flame Coal	1,670	1,520	1,280	1,080	—	—	—	4,100	3,990	1,660	1,400	—	—	—
SECL Long Flame Coal of Korba & Raigarh Coalfields	1,450	1,360	1,180	1,010	—	—	—	4,100	3,990	1,530	1,310	—	—	—
MCL Long Flame Coal	1,430	1,290	1,080	920	—	—	—	4,100	3,990	1,530	1,310	—	—	—

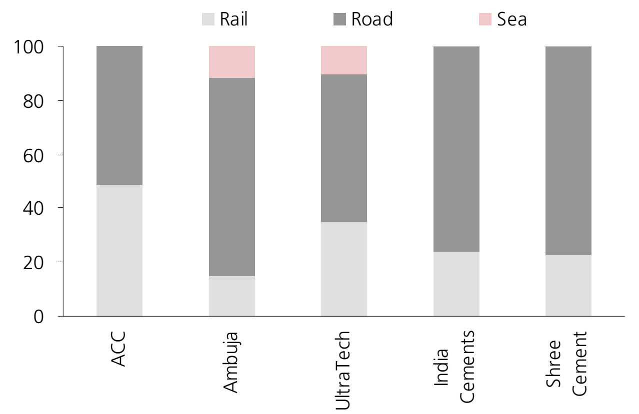
Source: Coal India Ltd., Kotak Institutional Equities

Exhibit 28: Diesel prices have been stable
Retail prices of diesel (Rs/liter)

	26/Jun/10	20/Jul/10	8/Sep/10	21/Sep/10	17/Oct/10	9/Nov/10	16/Dec/10	16/Jan/11
Diesel								
Delhi	40.1	37.6	37.7	37.7	37.7	37.7	37.7	37.7
Mumbai	42.0	42.0	42.1	42.1	42.1	42.1	42.1	42.1
Kolkata	39.9	39.9	40.0	40.0	40.0	40.0	40.0	40.0
Chennai	40.1	40.1	40.2	40.2	40.2	40.2	40.2	40.2

Source: Company, Kotak Institutional Equities

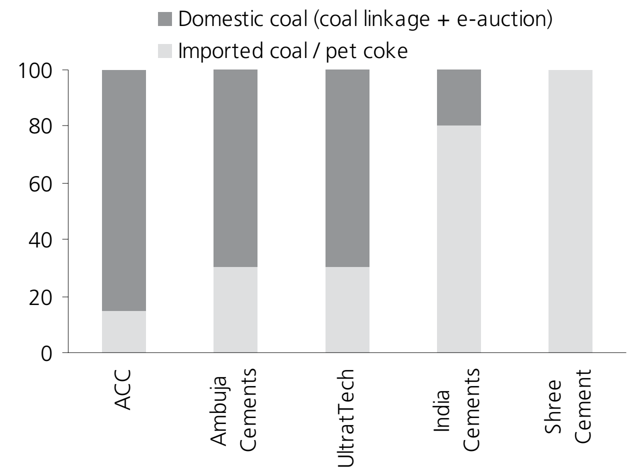
Exhibit 29: ACC has a healthy proportion of railway dispatches
Break-up of despatch mode in CY2009/FY2010 (%)



Notes:
(1) Break-up of dispatches for ACC and Ambuja are estimated numbers.

Source: Company, Kotak Institutional Equities estimates

Exhibit 30: India Cement is heavily dependent on imports
Break-up of fuel mix (%)



Source: Company, Kotak Institutional Equities estimates

Government intervention and the advent of a Competition Commission

There have previously been instances of the Government stepping in to control cement prices in its attempt to rein in Inflation (see Exhibit 31) and we do not rule out the possibility of such measures in future in light of this unprecedented price hike coupled with the Government's own struggle with soaring inflation. We also highlight that in July 2007, India's trade practices regulator MRTPC ordered a probe into the business practices of 14 leading cement manufacturers to investigate the possibility of manipulative practices and price collusion.

The Government of India in July 2007 amended the Competition Act, 2002 to establish the Competition Commission of India (CCI) which will effectively replace the MRTPC. CCI has been given more teeth than MRTPC while dealing with restrictive trade practice. In case of a cartel, MRTPC could only issue cease and desist orders (permit the parties to modify the agreement so that it is no longer prejudicial to public interest). CCI on the other hand has the power to impose deterrent penalties.

The role of CCI is to eliminate practices having adverse effect on competition, promote and sustain competition and protect the interests of consumers. CCI has the power to inquire into potential cases of 'agreement' or abuse of dominant position and take appropriate action including imposition of penalties. If CCI determines a particular agreement as a cartel, then it can impose a penalty of up to three times the profit earned during the cartelization period.

Exhibit 31: Intermittent interference from the government poses a constant risk to profitability of cement manufacturers
Chronology of intervention by the government

Date	Government action
Jan-09	Removal of exemption from countervailing duty on import of cement, thereby protecting domestic manufacturers
Dec-08	Government announces reduction in cenvat by 4% as part of the stimulus package to counter global headwinds affecting the domestic economy; lifts ban on cement exports to counter slowdown in consumption
May-08	ACC agrees to stabilise cement prices for 2-3 months in response to governments' concern on increasing cement prices and their impact on inflation. Government allows exports to Nepal and from ports in Gujarat
Apr-08	Government bans export of cement and clinker with immediate effect in order to increase domestic supply of cement
Mar-08	Withdrawal of duty entitlement passbook scheme to dis-incentivise export of cement and clinker
Jan-08	Tamil Nadu government forces cement manufacturers to sell 1.2 mn tpa of cement at a subsidized rate of Rs200/bag to economically backward sections of society
Jul-07	India's trade practices regulator MRTPC orders a probe into the business practices of 14 leading cement manufacturers to investigate the possibility of manipulative practices and price collusion
Apr-07	Removal of import and countervailing duty on imported cement facilitating import of cement form neighbouring countries at competitive prices
Feb-07	Dual structure of excise duty introduced, implying higher incidence of excise on cement sold above Rs190/bag

Source: Company, Kotak Institutional Equities

ACC (CMP: RS1,097, TP RS1,000, REDUCE)

Exhibit 32: Pricing and valuation summary of ACC

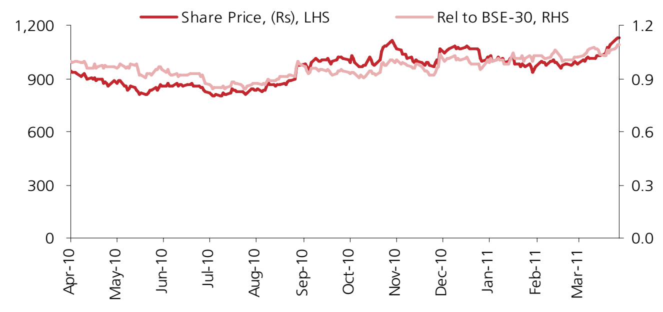
Company data		Shareholding pattern, December 2010 (%)			
Rating	REDUCE	Promoters			48.2
Price (Rs)	1,097	FIIs			15.5
Target price (Rs)	1,000	MFs			0.8
Shares o/s (m)	188	Ticker			ACC IN
Market capitalization (US$ mn)	4,645	**Performance**			
Free float (%)	51.8		**1mo**	**3mo**	**12mo**
Average daily traded (US$ mn)	8.7	Absolute (%)	11.4	7.4	15.6
Net debt (US$ mn)	(432)	Relative (%)	5.1	7.0	7.7

Forecast and Valuations

December Yearend	Revenues (Rs mn)	Net profit (Rs mn)	EPS (Rs)	RoE (%)	P/E (X)	EV/EBITDA (X)
2011E	76,365	9,708	51.7	16.4	21.2	12.3
2012E	90,323	12,850	68.4	19.3	16.0	8.6
2013E	101,747	15,511	82.6	19.9	13.3	6.8

Source: Bloomberg, Kotak Institutional Equities estimates

One year share price chart



Source: Bloomberg, Kotak Institutional Equities

Company profile

ACC with a capacity of about 26 mtpa is currently the second largest standalone cement player in India. Holcim owns ~48% of the company through its subsidiaries, Ambuja Cement India Ltd and Holderind Investments. The Holcim group recently acquired an incremental 2% ownership at an acquisition price of Rs1,075/share, and the possibility of increased acquisition by the parent entity cannot be ruled out. ACC has a pan-India presence with 15 plants spread all over the country resulting in low distribution costs.

Investment thesis

- **Muted volume growth and loss of market share**. ACC's YTD volume growth at 2% is 260 bps lower than Industry growth of 4.6% indicating continuous loss of market share. We highlight that with ramping up of capacities commissioned earlier in CY2010, volume growth has shown signs of revival in past few month.

- **Trading at significant premium to peers**. We like ACC for its diversified regional presence (no particular region accounting for more than 25-27% of its total sales) and its limited dependence on imported coal (~15% of total requirement). However, ACC, at 8.6X CY2011E EBITDA, is trading at significant premium to its peers and advise investors to book profits on the recent rally in the stock.

Valuations remain rich, REDUCE

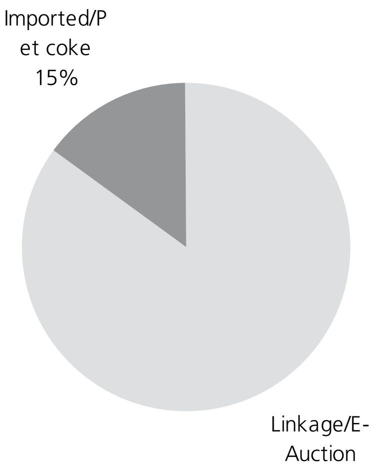
We upgrade ACC to REDUCE (from SELL previously) with a revised target price of Rs1,000/share (previously Rs920/share). Our target price implies an EV/ton of US$149/ton and EV/EBITDA of 7.5X on CY2011E earnings. ACC currently trades at an EV/ton of US$167/ton and EV/EBITDA of 8.6X on CY2011E earnings.

Exhibit 33: Growth in volume to be driven by commissioning of capacities at Wadi and Chanda
Key assumptions of ACC, December fiscal year-ends, 2010-12E

	Revised estimates			Old estimates			Estimate revision (%)	
	2010	2011E	2012E	2010	2011E	2012E	2011E	2012E
Revenue (Rs mn)	76,365	90,323	101,747	76,365	85,007	95,190	6.3	6.9
EBITDA (Rs mn)	15,206	20,149	23,687	15,206	16,786	20,190	20.0	17.3
PAT (Rs mn)	9,708	12,850	15,511	9,708	10,231	12,782	25.6	21.3
Volumes (mn tons)	21.4	23.0	25.1	21.4	22.9	25.0	0.5	0.5
Realization (Rs/ton)	3,613	3,958	4,093	3,613	3,746	3,850	5.7	6.3
Cost (Rs/ton)	2,863	3,045	3,110	2,863	2,975	3,017	2.3	3.1
EBITDA (Rs/ton)	750	913	983	750	771	848	18.4	15.9
EBITDA margin (%)	20.7	23.1	24.0	20.7	20.6	22.0	12.1	9.1

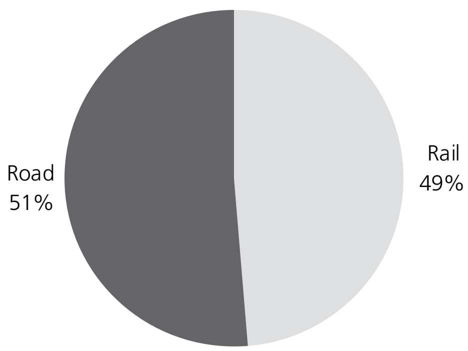
Source: Company, Kotak Institutional Equities estimates

Exhibit 34: Limited dependence on imported coal
Fuel mix for ACC (%)



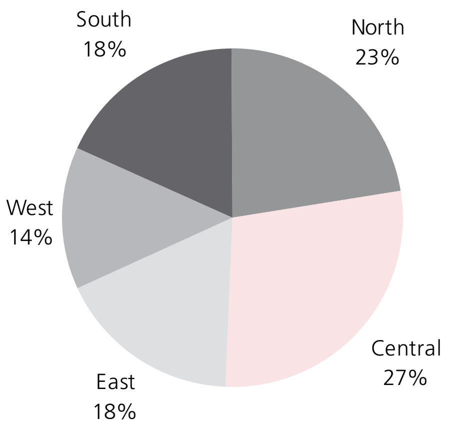
Source: Company, Kotak Institutional Equities estimates

Exhibit 35: Equal dependence on rail and road
Transport mix for ACC in CY2009 (%)



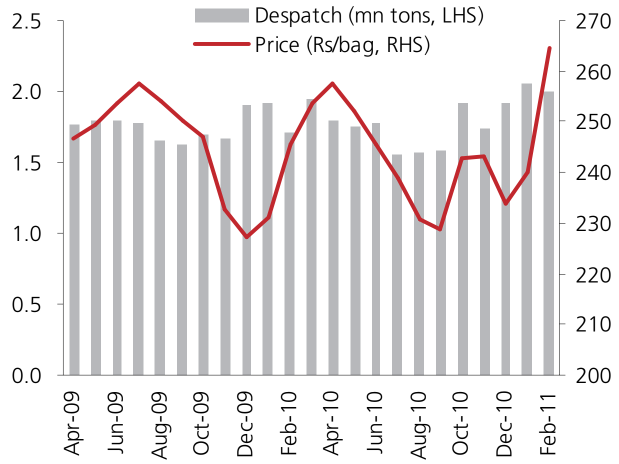
Source: Company, Kotak Institutional Equities estimates

Exhibit 36: Well-diversified regional presence
Sales mix of ACC in CY2009 (%)



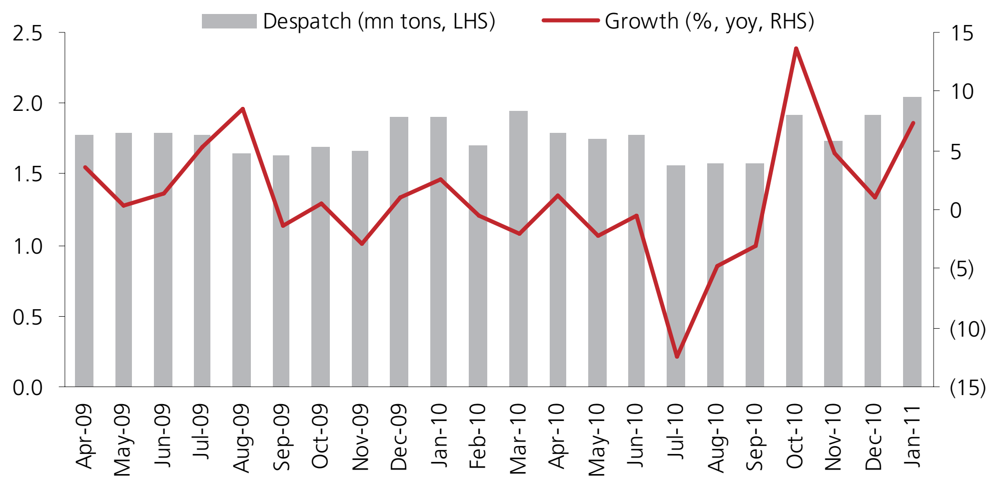
Source: Company, Kotak Institutional Equities

Exhibit 37: Uptrend in pricing from January 2011
Monthly despatch and estimated prices for ACC, April 2009 – January 2011 (mn tons, %)



Source: Company, Kotak Institutional Equities estimates

Exhibit 38: ACC has registered positive volume growth since September 2010
Monthly despatch figures for ACC, April 2009 – January 2011 (mn tons, %)



Source: Company, Kotak Institutional Equities

Exhibit 39: Profit model, balance sheet, cash model of ACC (Consolidated), December fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model (Rs mn)						
Net sales	69,319	72,370	79,445	76,365	90,323	101,747
EBITDA	**18,421**	**16,608**	**23,970**	**15,206**	**20,149**	**23,687**
Other income	2,416	3,104	3,230	3,733	4,080	4,980
Interest	(739)	(400)	(843)	(568)	(571)	(553)
Depreciation	(3,051)	(2,942)	(3,421)	(3,927)	(5,001)	(5,337)
Pretax profits	17,048	16,371	22,936	14,444	18,657	22,778
Tax	(4,917)	(5,169)	(6,877)	(4,234)	(5,306)	(6,985)
Share in associates	(45)	(632)	(421)	(502)	(501)	(281)
Net profits	**12,086**	**10,571**	**15,639**	**9,708**	**12,850**	**15,511**
Extraordinary items	2,255	500	8	991	—	—
Earnings per share (Rs)	**64.1**	**56.3**	**83.2**	**51.7**	**68.4**	**82.6**
Balance sheet (Rs mn)						
Total equity	44,844	52,627	63,646	68,301	77,736	89,359
Total borrowings	3,064	4,820	5,669	5,238	5,222	2,706
Currrent liabilities	22,212	27,413	31,522	37,464	41,889	41,813
Total liabilities and equity	**70,120**	**84,860**	**100,837**	**111,005**	**124,848**	**133,879**
Cash	7,435	9,842	7,464	10,800	24,357	34,115
Current assets	14,596	17,510	15,481	16,733	19,021	20,631
Total fixed assets	39,641	50,718	63,137	66,444	64,443	62,106
Investments	8,448	6,791	14,756	17,027	17,027	17,027
Deferred expenditure	—	—	—	—	—	—
Total assets	**70,120**	**84,860**	**100,838**	**111,005**	**124,848**	**133,879**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	15,819	14,391	20,210	15,303	19,255	21,745
Working capital	1,202	758	6,138	4,690	2,137	(1,685)
Capital expenditure	(8,283)	(14,940)	(15,440)	(7,234)	(3,000)	(3,000)
Investments	(2,921)	894	—	—	—	—
Free cash flow	**5,818**	**1,103**	**10,908**	**12,758**	**18,392**	**17,060**

Source: Kotak Institutional Equities estimates

AMBUJA CEMENT (CMP: RS149, TP RS130, SELL)

Exhibit 40: Pricing and valuation summary of ACEM

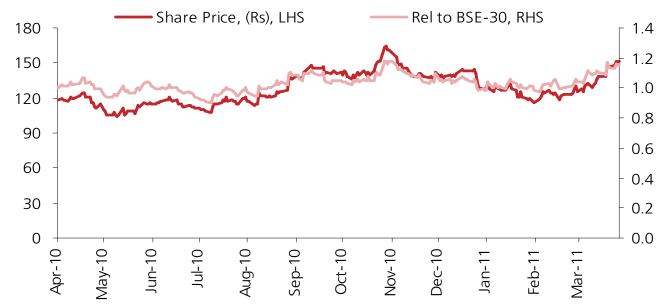
Company data		Shareholding pattern, December 2010 (%)			
Rating	SELL	Promoters			46.2
Price (Rs)	149	FIIs			28.8
Target price (Rs)	130	MFs			1.5
Shares o/s (m)	1,522	Ticker			ACEM IN
Market capitalization (US$ mn)	5,111	**Performance**			
Free float (%)	53.8		**1mo**	**3mo**	**12mo**
Average daily traded (US$ mn)	6.5	Absolute (%)	18.5	17.8	24.1
Net debt (US$ mn)	(379)	Relative (%)	11.8	17.4	15.5

Forecast and Valuations

December Yearend	Revenues (Rs mn)	Net profit (Rs mn)	EPS (Rs)	RoE (%)	P/E (X)	EV/EBITDA (X)
2011E	73,902	12,098	7.9	16.8	18.8	11.5
2012E	90,743	14,100	9.3	17.4	16.1	8.7
2013E	101,743	17,669	11.6	19.2	12.8	6.6

Source: Bloomberg, Kotak Institutional Equities estimates

One year share price chart



Source: Bloomberg, Kotak Institutional Equities

Company profile

Ambuja Cement (ACEM) has a capacity of ~22 mtpa primarily concentrated in West (8 mtpa) and North (7.5 mtpa). Holcim has taken control of the company by acquiring 15% stake from the original promoters. Holcim group currently owns 45.6% of the company through its subsidiaries Ambuja Cement India Ltd and Holderind Investments. Ambuja Cement is amongst the more efficient and profitable cement players having pioneered the concept of sea-route despatches.

Investment thesis

- **Valuations at significant premium to peers.** ACEM continues to be the most expensive name under our coverage universe and despite the recent spike in prices (and consequent upward revision in earnings), continues to trade at relatively high EV/EBITDA of 8.4X on CY2011E EBITDA. On EV/ton basis, ACEM at US$198/ton (CY2011E production) is trading at 34% premium to UTCEM and 19% premium to ACC.

- **Potential downside from surging coal prices.** ACEM imports ~30% of its total coal requirement which renders its earnings vulnerable to inflating prices of imported coal. We currently factor an average landed price of US$120/ton for CY2011E though highlight that higher-than-estimated cost of coal could be a key downside risk to our CY2011E estimates.

Book profits on recent spike. SELL

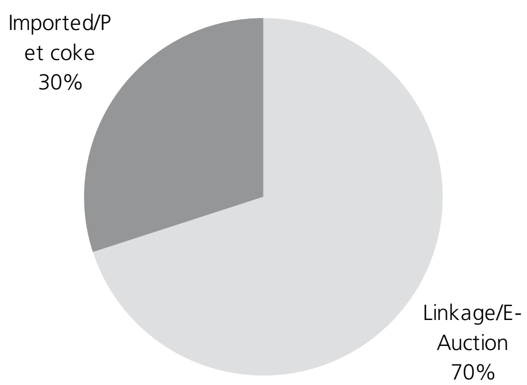
We retain our SELL rating on ACEM with a revised target price of Rs130/share (previously Rs108/share). ACEM currently trades at an EV/ton of US$198/ton on CY2011E production (19% premium to ACC and 34% premium to UTECM) and EV/EBITDA of 8.4X on CY2011E EBITDA. Our target price of Rs130/share implies EV/EBITDA of 7.2X and EV/ton of production of US$169/ton on CY2011E earnings and production, respectively.

Exhibit 41: Higher-than-estimated prices of imported coal could impact profitability
Key assumptions of ACEM, December fiscal year-ends, 2010-12E

	Revised estimates			Old estimates			Estimate revision (%)	
	2010	2011E	2012E	2010	2011E	2012E	2011E	2012E
Revenue (Rs mn)	73,902	90,743	101,743	73,902	85,639	92,634	6.0	9.8
EBITDA (Rs mn)	18,236	23,253	29,020	18,236	19,842	21,786	17.2	33.2
PAT (Rs mn)	12,098	14,100	17,669	12,098	12,082	13,219	16.7	33.7
Volumes (mn tons)	20.0	22.0	23.4	20.0	22.1	23.5	(0.5)	(0.5)
Realization (Rs/ton)	3,695	4,130	4,354	3,695	3,879	3,945	6.5	10.4
Cost (Rs/ton)	2,783	3,072	3,112	2,783	2,980	3,017	3.1	3.1
EBITDA (Rs/ton)	912	1,058	1,242	912	899	928	17.8	33.9
EBITDA margin (%)	24.7	25.6	28.5	24.7	23.2	23.5	10.6	21.3

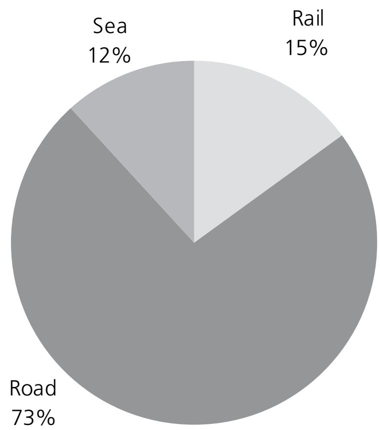
Source: Kotak Institutional Equities estimates

Exhibit 42: ~30% of total coal requirement is imported
Fuel mix for ACEM (%)



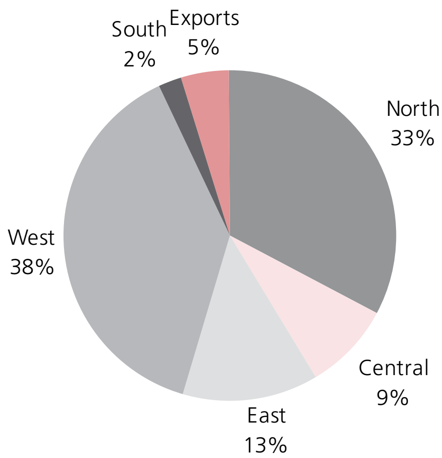
Source: Company, Kotak Institutional Equities

Exhibit 43: ACEM pioneered the concept of sea-route despatches.
Transport mix for ACEM in CY2009 (%)



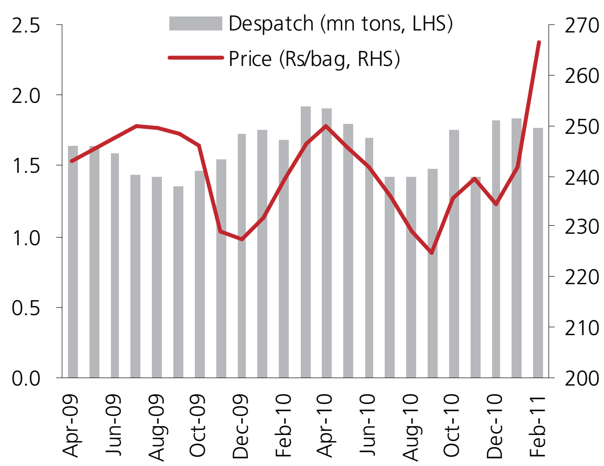
Source: Company, Kotak Institutional Equities estimates

Exhibit 44: Predominantly in West and North India
Sales mix of ACEM in CY2009 (%)



Source: Company, Kotak Institutional Equities

Exhibit 45: ACEM benefitted from price hikes in West in 4QCY10
Monthly despatch and estimated prices for ACEM, April-2009 – January-2011 (mn tons, %)



Source: Company, Kotak Institutional Equities estimates

Exhibit 46: Profit model, balance sheet, cash model of Ambuja Cements, December fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model (Rs mn)						
Net sales	55,303	60,597	69,446	73,902	90,743	101,743
EBITDA	**18,706**	**16,030**	**17,346**	**18,236**	**23,253**	**29,020**
Other income	3,345	3,503	3,881	2,476	2,875	2,903
Interest	(759)	(321)	(224)	(487)	(401)	(463)
Depreciation	(2,363)	(2,598)	(2,970)	(3,872)	(4,576)	(4,989)
Pretax profits	18,929	16,615	18,033	16,353	21,152	26,471
Tax	(7,413)	(5,676)	(5,849)	(4,256)	(7,050)	(8,801)
Net profits	**11,517**	**10,939**	**12,184**	**12,098**	**14,100**	**17,669**
Earnings per share (Rs)	**7.6**	**7.2**	**8.0**	**7.9**	**9.3**	**11.6**
Balance sheet (Rs mn)						
Total equity	50,396	60,536	69,567	78,610	87,892	97,874
Total borrowings	3,304	2,887	1,657	650	650	650
Currrent liabilities	11,691	14,738	17,411	23,942	23,819	24,108
Total liabilities and equity	**65,391**	**78,161**	**88,635**	**103,202**	**112,362**	**122,632**
Cash	6,508	8,518	8,807	17,482	25,176	34,531
Current assets	9,365	14,876	10,987	13,872	16,720	18,124
Total fixed assets	36,567	51,400	61,545	65,585	64,202	63,713
Investments	12,889	3,324	7,270	6,260	6,260	6,260
Deferred expenditure	62	43	27	5	5	5
Total assets	**65,391**	**78,161**	**88,636**	**103,202**	**112,362**	**122,632**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	14,332	13,772	16,369	17,035	19,116	20,582
Working capital change	3,305	(2,464)	6,562	3,646	(2,971)	(1,115)
Capital expenditure	(7,504)	(17,263)	(12,844)	(7,889)	(3,193)	(4,500)
Investments	(1,558)	9,566	(3,946)	1,011	—	—
Free cash flow	**8,574**	**3,611**	**6,141**	**13,803**	**12,952**	**14,967**

Source: Company, Kotak Institutional Equities estimates

GRASIM INDUTRIES (CMP: RS2,534, TP: RS3,000, BUY)

Exhibit 47: Pricing and valuation summary of Grasim

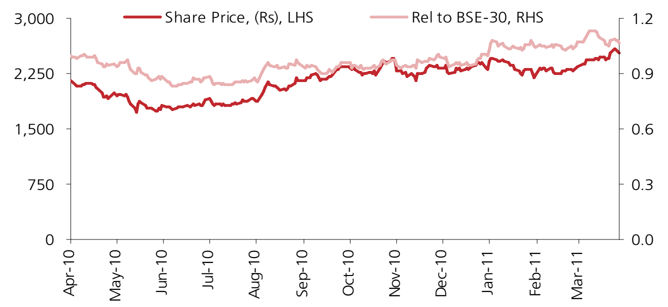
Company data		Shareholding pattern, December 2010 (%)			
Rating	BUY	Promoters			25.5
Price (Rs)	2,534	FIIs			34.5
Target price (Rs)	3,000	MFs			5.8
Shares o/s (m)	92	Ticker			GRASIM IN
Market capitalization (US$ mn)	5,235	**Performance**			
Free float (%)	74.5		**1mo**	**3mo**	**12mo**
Average daily traded (US$ mn)	5.6	Absolute (%)	7.7	9.4	17.8
Net debt (US$ mn)	1,424	Relative (%)	1.6	9.1	9.6

Forecast and Valuations

March Yearend	Revenues (Rs mn)	Net profit (Rs mn)	EPS (Rs)	RoE (%)	P/E (X)	EV/EBITDA (X)
2011E	208,759	20,830	227.2	15.6	11.2	6.0
2012E	244,890	27,039	294.9	17.5	8.6	4.7
2013E	273,802	32,042	349.4	17.8	7.3	3.6

Source: Bloomberg, Kotak Institutional Equities estimates

One year share price chart



Source: Bloomberg, Kotak Institutional Equities

Company profile

Grasim Industries (Grasim), the flagship company of the Aditya Birla group, is a conglomerate with interests in cement (65%), viscose staple fiber (24%) and chemicals. Grasim controls about 51 mtpa cement capacity through its 60% holding in UltraTech which also includes ~3 mtpa of capacity in ETA Star Cement. Grasim's VSF capacity of 334 ktpa accounts for 10% of global capacity.

Investment thesis

- **Largest cement player in the country**. The restructuring of Grasim's cement business has resulted in the entire cement business being housed under UltraTech (Grasim's stake 60%) with diversified geographic presence. The creation of a pure-play cement entity (largest in the country) would result in narrowing of discount at which UltraTech has historically traded compared to peers such as ACC and Ambuja.

- **Earnings cushion from VSF business**. Stable earnings from VSF business cushions consolidated earnings from the impact of a volatility in cement prices. The VSF business has seen a revival of earnings, backed by stronger demand and improved realizations driven by shortage of cotton fiber (substitute). Moreover, 70% of Grasim's requirement for wood pulp (key input) is captive thus insulating its margins from adverse movement in raw material costs.

- **Large holding company discount**. Grasim's CMP implies a holding company discount of 37% for its 60% holding in UTCEM which we believe is large and should narrow down to 20-25% levels.

Valuations attractive, upgrade to BUY

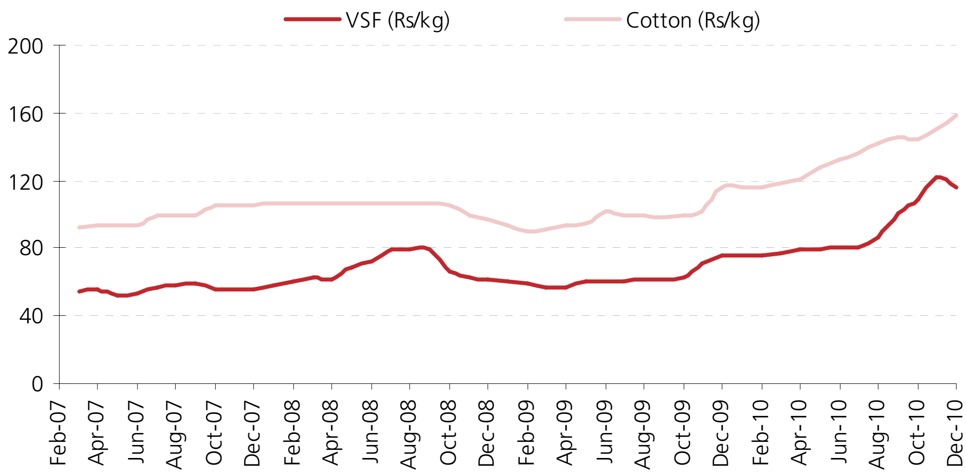
We upgrade Grasim to BUY (previously ADD) with a revised target price of Rs3,000/share (previously Rs2,600/share). On comparative valuations on FY2012E, our assigned valuation implies 5X EV/EBITDA for the VSF business. We value Grasim's 60% stake in UTCEM at our target price of UTCEM and factor a holding company discount of 20%.

Exhibit 48: Our SOTP-based target price of Grasim is Rs3,000/share
Grasim SOTP

		Methodology
Value of standalone entity		
VSF	61,029	DCF value implying an EV/EBITDA of 4X on FY2012E
Others (Chemicals)	2,342	
Value of key investments	25,456	20% discount to current market price
Standalone net debt	(25,311)	
Total	**114,138**	
Value of standalone business (Rs/share)	**1,245**	
Value of Cement business		
KIE target price of UltraTech (Rs/share)	1,250	Valued at 7.5X FY2012E EBITDA
Value of 60% holding	164,400	Factoring holding company discount of 80%
Value of Cement business (Rs/share)	**1,793**	
Market capitalization	278,538	
Number of shares o/s (mn)	91.7	
Target price (Rs)	**3,000**	

Source: Kotak Institutional Equities estimates

Exhibit 49: Cotton prices jumped 30% sequentially to Rs115/kg in 3QFY11
Monthly prices of VSF and Cotton, March 2007 – December 2010 (Rs/kg)



Source: CRISIL Research, Kotak Institutional Equities

Exhibit 50: Profit model, balance sheet, cash model of Grasim Industries (Consolidated), March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	169,739	184,039	199,334	208,759	244,890	273,802
EBITDA	**49,598**	**43,306**	**57,867**	**49,076**	**62,691**	**74,253**
Other income	4,623	4,532	5,356	6,267	7,591	7,810
Interest	(2,221)	(3,105)	(3,346)	(4,134)	(4,787)	(4,233)
Depreciation	(6,703)	(8,658)	(9,947)	(11,318)	(12,204)	(12,882)
Pretax profits	45,296	36,076	49,930	39,892	53,291	64,949
Minority interest	(4,548)	(4,286)	(6,631)	(6,786)	(9,977)	(12,449)
Tax	(14,658)	(9,914)	(15,705)	(12,275)	(16,275)	(20,458)
Net profits	**28,914**	**21,877**	**30,955**	**20,830**	**27,039**	**32,042**
Extraordinary items	2,824	—	3,361	—	—	—
Earnings per share (Rs)	**285**	**239**	**301**	**227**	**295**	**349**
Balance sheet (Rs mn)						
Total equity	91,438	115,701	125,246	142,537	166,036	194,537
Total borrowings	55,771	59,162	55,992	58,817	51,468	38,772
Minority interest	12,760	16,704	37,548	44,334	54,311	66,760
Currrent liabilities	36,783	35,685	38,891	23,045	31,675	44,847
Deferred tax liability	11,575	15,919	20,057	22,854	24,130	27,856
Total liabilities and equity	**208,327**	**243,170**	**277,736**	**291,586**	**327,620**	**372,772**
Cash	2,903	2,270	2,370	13,220	19,631	41,032
Current assets	39,681	43,073	43,009	48,978	62,226	69,297
Total fixed assets	129,223	142,190	145,527	142,559	158,934	175,614
Investments	16,607	35,626	66,759	66,759	66,759	66,759
Goodwill	19,913	20,010	20,071	20,071	20,071	20,071
Total assets	**208,327**	**243,170**	**277,736**	**291,586**	**327,620**	**372,772**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	38,559	41,870	49,565	45,943	54,450	67,399
Working capital	1,994	(4,490)	3,271	(21,816)	(4,618)	6,101
Capital expenditure	(47,774)	(17,824)	(13,285)	(8,350)	(28,579)	(29,561)
Investments	4,183	(20,338)	(17,044)	—	—	—
Free cash flow	**(3,038)**	**(780)**	**22,507**	**15,777**	**21,254**	**43,939**

Source: Company, Kotak Institutional Equities estimates

INDIA CEMENT (CMP: RS99, TP RS100, REDUCE)

Exhibit 51: Pricing and valuation summary of ICEM

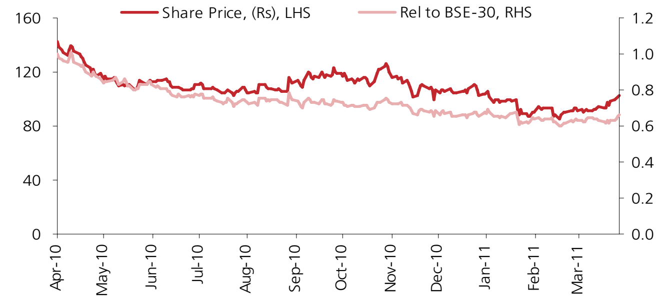
Company data		Shareholding pattern, December 2010 (%)			
Rating	REDUCE	Promoters			25.2
Price (Rs)	99	FIIs			30.9
Target price (Rs)	100	MFs			5.9
Shares o/s (m)	307	Ticker			ICEM IN
Market capitalization (US$ mn)	687	**Performance**			
Free float (%)	74.8		**1mo**	**3mo**	**12mo**
Average daily traded (US$ mn)	1.0	Absolute (%)	(0.5)	(13.1)	(23.1)
Net debt (US$ mn)	376	Relative (%)	(6.1)	(13.4)	(28.4)

Forecast and Valuations

March Yearend	Revenues (Rs mn)	Net profit (Rs mn)	EPS (Rs)	RoE (%)	P/E (X)	EV/EBITDA (X)
2011E	34,851	1,119	3.6	2.8	9	5.4
2012E	44,963	3,963	12.9	9.8	7.3	6.2
2013E	48,034	4,325	14.1	9.9	6.1	5.9

Source: Bloomberg, Kotak Institutional Equities estimates

One year share price chart



Source: Bloomberg, Kotak Institutional Equities

Company profile

India Cements Limited (ICEM) is the largest cement player in South India with an installed capacity of 14 mtpa. The company's manufacturing facilities are well-spread in the region with three facilities in Tamil Nadu and four in Andhra Pradesh. The company also has well-known brands and an extensive distribution network. ICEM recently commissioned a 1.8 mtpa capacity at Banswara in Rajasthan marking its foray outside its traditional market of South India.

Investment thesis

- **Excessive dependence on South**. South India accounts for almost 85-90% of ICEM's total sales volumes. We note that despite significant price hikes and pricing discipline shown by manufacturers, South India remains the weakest market having registered an average 5% YTD decline in sales. In our view, South is most susceptible to any pricing weakness that might be witnessed in absence of a structural uptrend in demand.

- **Potential downside from surging coal prices**. ICEM imports ~80% of its total coal requirement which renders its earnings vulnerable to inflating prices of imported coal. We highlight that higher-than-estimated cost of coal could be a key downside risk to our CY2011E estimates.

- **High leverage**. ICEM had a net debt of Rs24.5 bn (implying a net debt to equity of 60%) as of September 2010. Debt includes FCCB (issued amount US$75 mn) due to mature in FY2012E which would most likely entail repayment of US$111 mn.

Stay away from South, REDUCE

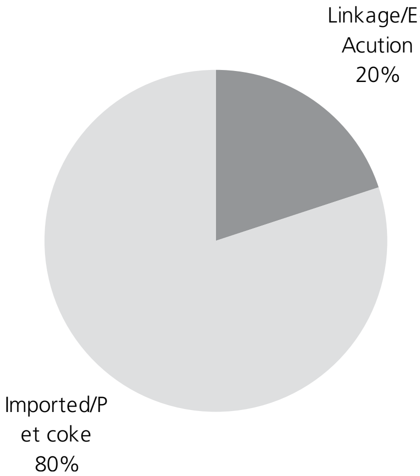
We upgrade ICEM to REDUCE (from SELL previously) with a revised target price of Rs100/share (previously Rs85/share). Our target price implies a P/E of 7.8X and EV/EBITDA of 5.5X on FY2012E earnings. ICEM is currently trading at a P/E of 7.7X FY2012E EPS and EV/EBITDA of 5.4 X FY2012E EBITDA.

Exhibit 52: We factor in a 18% growth in average realization in FY2012E
Key assumptions of ICEM, March fiscal year-ends, 2011-13E

	Revised estimates			Old estimates			Estimate revision (%)		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Revenue (Rs mn)	34,851	44,963	48,034	34,390	40,374	44,574	1.3	11.4	7.8
EBITDA (Rs mn)	4,133	8,405	8,424	3,812	5,526	7,308	8.4	52.1	15.3
PAT (Rs mn)	1,119	3,963	4,325	909	2,096	3,604	23.0	89.1	20.0
Volumes (mn tons)	9.9	10.9	11.5	9.9	11.1	11.9	0.0	(1.2)	(3.8)
Realization (Rs/ton)	3,534	4,129	4,207	3,488	3,666	3,757	1.3	12.6	12.0
Cost (Rs/ton)	3,098	3,343	3,455	3,084	3,148	3,126	0.5	6.2	10.5
EBITDA (Rs/ton)	436	787	753	404	518	631	8.0	51.9	19.3
EBITDA margin (%)	12.3	19.0	17.9	11.6	14.1	16.8	6.6	34.9	6.5

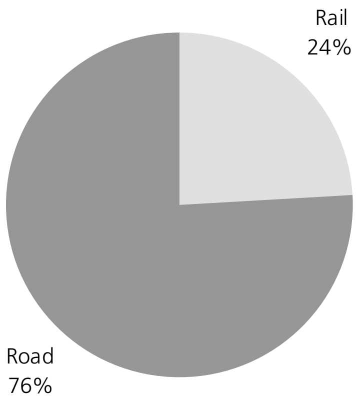
Source: Company, Kotak Institutional Equities estimates

Exhibit 53: 80% of total coal requirement is imported
Fuel mix for ICEM (%)



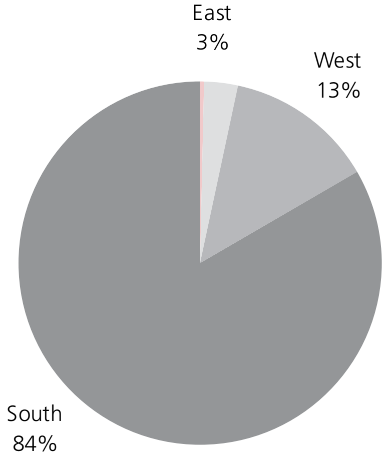
Source: Company, Kotak Institutional Equities

Exhibit 54: ICEM has a large dependence on road transport
Transport mix for ICEM in FY2010 (%)



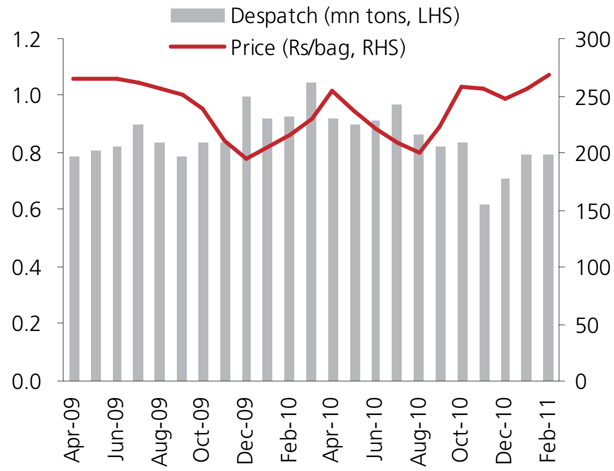
Source: Company, Kotak Institutional Equities

Exhibit 55: Predominantly a South-based player
Sales mix of ICEM in FY2010 (%)



Source: Company, Kotak Institutional Equities

Exhibit 56: Prices have sustained despite weak volume growth
Monthly despatch and estimated prices for ICEM, April 2009 – January 2011 (mn tons, %)



Source: Company, Kotak Institutional Equities estimates

Exhibit 57: Profit model, balance sheet, cash model of India Cements, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	30,212	34,036	38,099	34,851	44,963	48,034
EBITDA	**10,450**	**8,959**	**7,959**	**4,133**	**8,405**	**8,424**
Other income	887	1,482	616	1,045	1,149	1,361
Interest	(1,099)	(1,123)	(1,428)	(1,267)	(1,190)	(1,140)
Depreciation	(1,281)	(2,045)	(2,345)	(2,424)	(2,498)	(2,527)
Pretax profits	8,957	7,273	4,802	1,487	5,866	6,117
Tax	(2,073)	(2,174)	(1,777)	(369)	(1,903)	(1,792)
Minority interest	13	(81)	57	—	—	—
Net profits	**6,897**	**5,018**	**3,083**	**1,119**	**3,963**	**4,325**
Extraordinary items	(481)	(794)	436	—	—	—
Earnings per share (Rs)	**24.5**	**17.8**	**10.0**	**3.6**	**12.9**	**14.1**
Balance sheet (Rs mn)						
Total equity	34,591	37,902	42,197	41,723	44,708	48,388
Total borrowings	18,115	19,919	21,360	21,360	17,992	16,992
Currrent liabilities	9,851	11,716	12,753	12,681	14,436	18,435
Total liabilities and equity	**62,557**	**69,537**	**76,310**	**75,765**	**77,136**	**83,815**
Cash	4,262	880	569	1,542	2,851	10,891
Current assets	14,178	17,664	25,213	25,917	27,306	27,772
Total fixed assets	40,526	47,280	47,097	44,875	43,547	41,720
Investments	3,330	3,556	3,407	3,407	3,407	3,407
Deferred Expenditure	260	158	24	24	24	24
Total assets	**62,557**	**69,537**	**76,310**	**75,765**	**77,136**	**83,815**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	11,061	8,277	6,448	4,527	7,423	8,208
Working capital	3,147	(1,621)	(6,511)	(776)	365	3,534
Capital expenditure	(12,869)	(9,414)	(2,630)	(201)	(1,170)	(700)
Investments	(39)	71	1,698	—	—	—
Free cash flow	**1,300**	**(2,688)**	**(995)**	**3,550**	**6,617**	**11,042**

Source: Company, Kotak Institutional Equities estimates

SHREE CEMENT (CMP: RS1,955, TP: RS2,000, REDUCE)

Exhibit 58: Pricing and valuation summary of SRCM

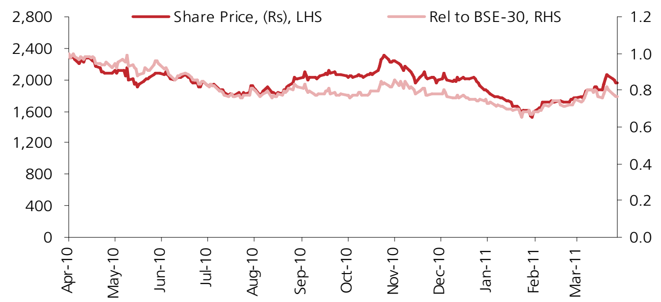
Company data		Shareholding pattern, December 2010 (%)			
Rating	REDUCE	Promoters			63.7
Price (Rs)	1,955	FIIs			3.8
Target price (Rs)	2,000	MFs			9.6
Shares o/s (m)	35	Ticker			SRCM IN
Market capitalization (US$ mn)	1,534	**Performance**			
Free float (%)	36.3		**1mo**	**3mo**	**12mo**
Average daily traded (US$ mn)	0.7	Absolute (%)	10.1	4.3	(15.4)
Net debt (US$ mn)	(50)	Relative (%)	3.9	4.0	(21.3)

Forecast and Valuations

March Yearend	Revenues (Rs mn)	Net profit (Rs mn)	EPS (Rs)	RoE (%)	P/E (X)	EV/EBITDA (X)
2011E	34,191	2,322	66.7	12.2	29.3	7.9
2012E	41,549	6,300	180.8	27.9	10.8	4.1
2013E	44,736	7,586	217.7	26.9	9.0	2.9

Source: Bloomberg, Kotak Institutional Equities estimates

One year share price chart



Source: Bloomberg, Kotak Institutional Equities

Company profile

Shree Cement, promoted by the B. G. Bangur family in 1985 with a 0.6 mtpa capacity at Beawer in Central Rajasthan, has since expanded to 13.4 mtpa capacity along with captive power generation facility of 210 MW. Shree Cement has plans to add another 350 MW of captive power capacities which would significantly boost the quantum of surplus power available for short-term sale.

Investment thesis

- **Cost pressure likely to persist**. The recent spike in pet coke prices has raised concerns on the fuel security for SRCM given its high dependence on the fuel (SRCM imported ~50% of its total pet coke requirement in FY2010). Pet coke prices have already reached Rs7,500/ton (landed cost) and we expect prices to remain stiff in the near term given the recent surge in prices of imported coal. We note that 10% higher pet coke prices in FY2012E could impact our fair value estimate of SRCM by ~5%.

- **Weakness in short-term power tariffs**. We factor realizations of Rs4.5/kwh for external sales from the power segment comprising 48% of total net generation of 1,619 MU (+58% yoy) as SRCM benefits from the first full year of operation of recently commissioned 145 MW of power capacity. Lower-than-estimated short-term realization could be a key downside risk to our FY2012E estimates.

Operating environment challenging, retain REDUCE

We retain our REDUCE rating on SRCM with a revised target price of Rs2,000/share (previously Rs1,680/share). In our view, weak pricing environment for power along with relentless cost pressures from surging pet coke prices will likely weigh down on the stock in the near-to-mid term. Our SOTP-based valuation includes (1) Rs1,746/share for cement business based at 5X FY2012E EBITDA and (2) Rs266/share for external power sales based on March 2012-based DCF-to-equity valuation.

Exhibit 59: We build in a strong improvement in profitability in FY2012E
Key assumptions of SRCM's cement business, March fiscal year-ends, 2011-13E

	Revised estimates			Old estimates			Estimate revision (%)		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Revenue (Rs mn)	34,191	41,549	44,736	33,608	39,174	41,486	1.7	6.1	7.8
EBITDA (Rs mn)	8,363	13,669	15,816	8,201	12,288	13,502	2.0	11.2	17.1
PAT (Rs mn)	2,322	6,300	7,586	2,925	5,633	6,447	(20.6)	11.9	17.7
Volumes (mn tons)	10.5	11.4	11.7	10.5	11.4	11.7	0.0	0.0	0.0
Realization (Rs/ton)	3,074	3,296	3,463	3,019	3,087	3,184	1.8	6.8	8.7
Cost (Rs/ton)	2,442	2,357	2,387	2,408	2,289	2,317	1.4	3.0	3.0
EBITDA (Rs/ton)	632	939	1,076	611	798	867	3.6	17.7	24.1
EBITDA margin (%)	20.6	28.5	31.1	20.2	25.8	27.2	1.7	10.2	14.1

Note:
EBITDA and cost per ton are for the cement business.

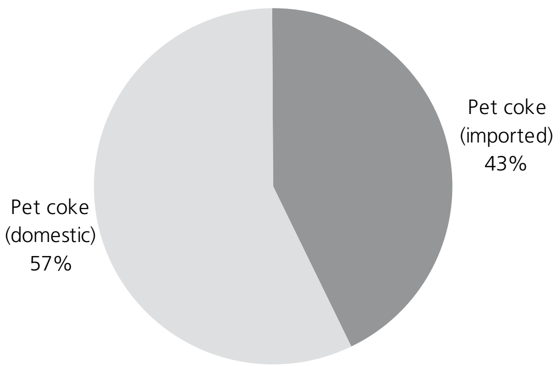
Source: Company, Kotak Institutional Equities estimates

Exhibit 60: We factor merchant sale of 800 MU at Rs4.5/kwh in FY2012E
Key operational assumptions for SRCM's power business, March fiscal year-ends, 2009-13E

	2009	2010	2011E	2012E	2013E
Financial summary					
Segment revenue	**5,369**	**6,317**	**6,168**	**8,631**	**8,012**
Inter-segment	(4,563)	(4,547)	(3,685)	(4,203)	(3,362)
External revenue	**806**	**1,770**	**2,483**	**4,428**	**4,650**
Tariff (Rs/kwh)	6.7	6.6	6.2	4.5	4.0
Cost of generation (Rs/kwh)	2.5	1.9	1.9	1.7	1.7
Segment EBIT	**2,976**	**3,065**	**1,869**	**3,486**	**2,887**
Operational data					
Units sold	800	952	1,019	1,619	1,791
Captive consumption	595	655	756	819	841
Merchant sale	205	297	264	800	950
Computation of captive consumption					
Cement production (mn tons)	7.8	9.4	10.1	11.4	11.7
Power consumption (kwh/ton)	77	70	75	72	72
Captive consumption (MU)	595	655	756	819	841

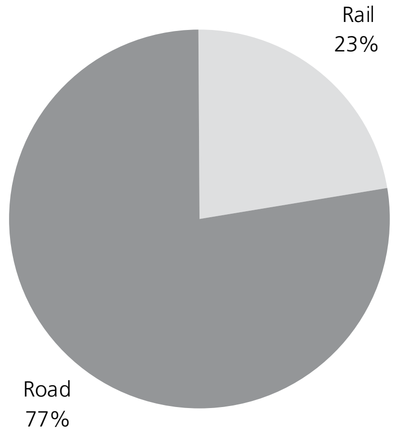
Source: Company, Kotak Institutional Equities estimates

Exhibit 61: SRCM imported ~43% of its pet coke requirement in FY2010
Fuel mix of SRCM (%)



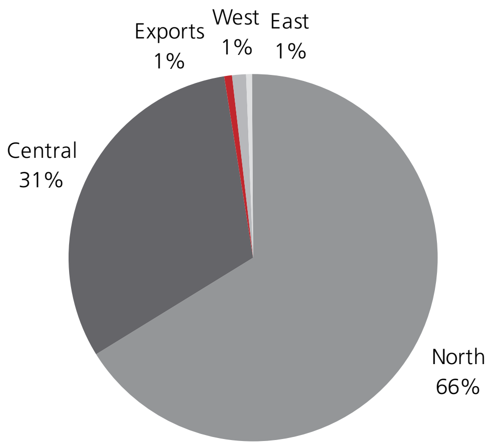
Source: Company, Kotak Institutional Equities

Exhibit 62: Large dependence on road dispatches
Transport mix for SRCM in FY2010 (%)



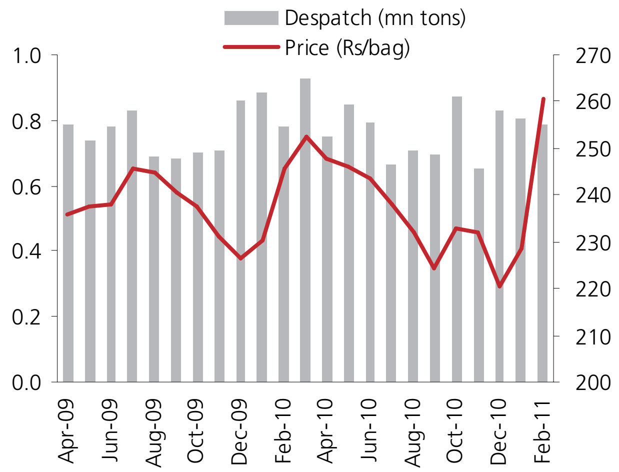
Source: Company, Kotak Institutional Equities

Exhibit 63: North India accounted for 66% of SRCM sales
Sales mix of SRCM in FY2010 (%)



Source: Company, Kotak Institutional Equities

Exhibit 64: Prices in North remained weak for major part of FY2011
Monthly despatch and estimated prices for SRCM, April 2009 – January 2011 (mn tons, %)



Source: Company, Kotak Institutional Equities estimates

Exhibit 65: We ascribe 5X on adjusted cement EBITDA for FY2012E
SOTP SRCM

Cement	
FY2012E adjusted EBITDA (Rs mn)	11,822
EV/EBITDA (X)	5.0
EV (Rs mn)	59,111
Net Debt (Rs mn)	(1,725)
Equity value (Rs mn)	**60,836**
Power	
Equity value (Rs mn)	**9,253**
Total (Rs mn)	**70,089**
No. of shares	35
Value (Rs/share)	**2,012**

Source: Kotak Institutional Equities estimates

Exhibit 66: 10% higher pet coke prices in FY2012E could impact SRCM's valuation by ~5%
Sensitivity of SRCM's fair value to pet coke prices in FY2012 and sustainable merchant tariff

		Share value (Rs/share)				
		FY2012E pet coke price (Rs/ton)				
		6,769	7,125	**7,500**	7,875	8,269
Sustainable merchant tariff (Rs/kwh)	2.0	1,928	1,877	**1,822**	1,768	1,711
	3.0	2,059	2,009	**1,955**	1,902	1,846
	3.5	**2,116**	**2,065**	**2,012**	**1,959**	**1,903**
	4.0	2,173	2,122	**2,069**	2,015	1,959
	4.5	2,229	2,179	**2,125**	2,072	2,016

Source: Kotak Institutional Equities estimates

Exhibit 67: Profit model, balance sheet, cash model of Shree Cement, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	20,650	27,150	36,321	34,191	41,549	44,736
EBITDA	**8,653**	**9,508**	**15,025**	**8,363**	**13,669**	**15,816**
Other income	733	829	1,284	864	1,018	1,085
Interest	(527)	(744)	(1,291)	(1,197)	(838)	(715)
Depreciation	(4,788)	(2,054)	(5,704)	(5,547)	(6,074)	(6,601)
Pretax profits	4,072	7,538	9,313	2,484	7,775	9,585
Tax	(930)	(1,449)	(2,066)	(162)	(1,475)	(1,999)
Net profits	**3,142**	**6,089**	**7,248**	**2,322**	**6,300**	**7,586**
Extraordinary items	(389)	(309)	(487)	—	—	—
Earnings per share (Rs)	**90.2**	**174.8**	**208.0**	**66.7**	**180.8**	**217.7**
Balance sheet (Rs mn)						
Total equity	6,543	11,996	18,208	19,998	25,126	31,364
Total borrowings	13,307	14,962	21,062	11,062	8,005	8,005
Currrent liabilities	4,799	6,842	9,667	6,550	11,749	13,658
Total liabilities and equity	**24,649**	**33,800**	**48,938**	**37,611**	**44,880**	**53,027**
Cash	4,674	4,723	4,164	(2,653)	4,664	14,527
Current assets	6,286	9,571	11,545	12,193	14,221	15,106
Total fixed assets	7,779	11,057	17,194	12,148	10,073	7,472
Investments	5,910	8,448	16,035	15,922	15,922	15,922
Total assets	**24,649**	**33,800**	**48,938**	**37,611**	**44,880**	**53,027**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	7,631	8,154	12,938	8,044	11,486	12,995
Working capital	(125)	(1,243)	851	(3,765)	3,171	1,024
Capital expenditure	(4,260)	(5,295)	(11,835)	(501)	(4,000)	(4,000)
Investments	500	—	—	—	—	—
Free cash flow	**3,746**	**1,616**	**1,954**	**3,778**	**10,657**	**10,019**

Source: Company, Kotak Institutional Equities estimates

ULTRATECH CEMENT (CMP: RS1,080, TP: RS1,250, BUY)

Exhibit 68: Pricing and valuation summary of UTCEM

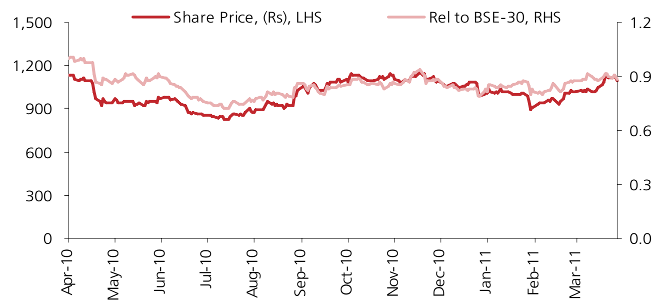
Company data		Shareholding pattern, December 2010 (%)			
Rating	BUY	Promoters			51.1
Price (Rs)	1,080	FIIs			6.2
Target price (Rs)	1,250	MFs			4.4
Shares o/s (m)	274	Ticker			UTCEM IN
Market capitalization (US$ mn)	6,665	**Performance**			
Free float (%)	36.6		**1mo**	**3mo**	**12mo**
Average daily traded (US$ mn)	3.3	Absolute (%)	6.4	6.5	(6.9)
Net debt (US$ mn)	200	Relative (%)	0.4	6.1	(13.4)

Forecast and Valuations

March Yearend	Revenues (Rs mn)	Net profit (Rs mn)	EPS (Rs)	RoE (%)	P/E (X)	EV/EBITDA (X)
2011E	135,363	14,208	51.9	18.8	20.8	10.6
2012E	188,234	24,942	91.0	21.4	11.9	6.5
2013E	213,988	31,123	113.6	21.8	9.5	4.9

Source: Bloomberg, Kotak Institutional Equities estimates

One year share price chart



Source: Bloomberg, Kotak Institutional Equities

Company profile

UltraTech Cement (UTCEM), with an extant capacity of ~51 mtpa (including 3 mtpa of ETA Star Cement), is the largest cement player in India. The company, earlier a division of engineering major L&T, is now 60% controlled by Grasim Industries. UTCEM has a diversified geographic presence with West India being the largest market (25% of sales in FY2010). A significant presence in West India and a captive jetty has enabled UltraTech to capitalize on the construction boom in the Middle East and export large volumes of cement and clinker.

Investment thesis

- **Attractive valuations at discount to peers.** UTCEM is currently trading at EV/ton of US$148/ton (25% discount to ACEM and 11% discount to ACC) and EV/EBTDA of 6.5X (23% discount to ACEM and 24% discount to ACC) on FY2012E earnings. UTCEM has traditionally traded at a discount to its peers (historical average: 8X EV/EBITDA for ACC) though creation of a large pure-play cement entity will likely reduce this discount, in our view.

- **Diversified regional presence.** UTCEM has a relatively well-diversified regional presence with no particular region accounting for more than 25% of its total sales. Regional diversification will help UTCEM combat any region-specific weakness (a case in point being South India for past 12-15 months).

Upgrade to BUY with a revised target price of Rs1,250/share

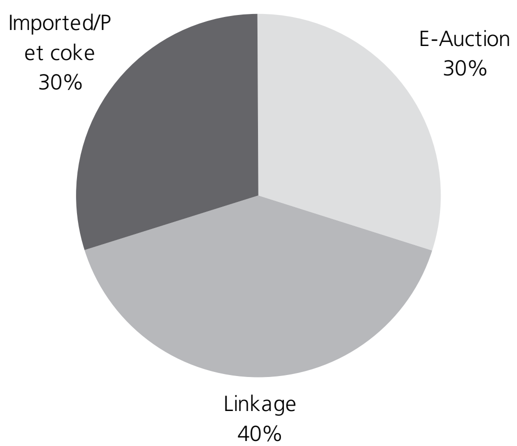
We upgrade UTCEM to BUY (REDUCE previously) with a revised target price of Rs1,300/share (previously Rs1,030/share). UTCEM is currently trading at an EV/ton of US$148/ton on FY2012E production and EV/EBITDA of 6.5X on FY2012E EBITDA (a significant discount to ACC and ACEM). Our target price implies an EV/EBITDA of 7.5X on FY2012E EBITDA and EV/ton of US$172/ton on FY2012E production.

Exhibit 69: Profitability to show a strong revival in FY2012E
Key assumptions of UTCEM, March fiscal year-ends, 2011-13E

	Revised estimates			Old estimates			Estimate revision (%)		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Revenue (Rs mn)	135,363	188,234	213,988	130,902	178,179	200,250	3.4	5.6	6.9
EBITDA (Rs mn)	28,702	44,985	55,055	24,385	39,770	49,073	17.7	13.1	12.2
PAT (Rs mn)	14,208	24,942	31,123	11,580	21,843	27,990	22.7	14.2	11.2
Volumes (mn tons)	35.0	43.8	47.3	35.6	45.9	49.9	(1.6)	(4.5)	(5.2)
Realization (Rs/ton)	3,866	4,296	4,523	3,681	3,882	4,015	5.0	10.6	12.7
Cost (Rs/ton)	3,046	3,269	3,359	2,995	3,016	3,031	1.7	8.4	10.8
EBITDA (Rs/ton)	820	1,027	1,164	686	867	984	19.6	18.5	18.3
EBITDA margin (%)	22.9	25.5	27.3	20.6	24.6	26.5	11.2	3.5	3.0

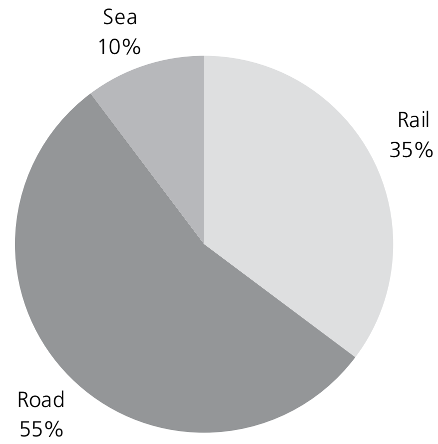
Source: Kotak Institutional Equities estimates

Exhibit 70: 40% of coal requirement is met through linkage
Fuel mix of UTCEM (%)



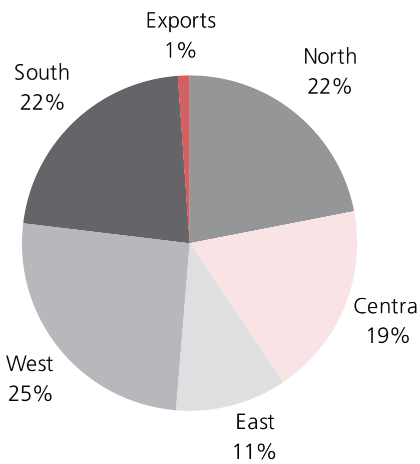
Source: Company, Kotak Institutional Equities

Exhibit 71: UTCEM uses sea transport for ~10% of its volumes
Transport mix of UTCEM in FY2010 (%)



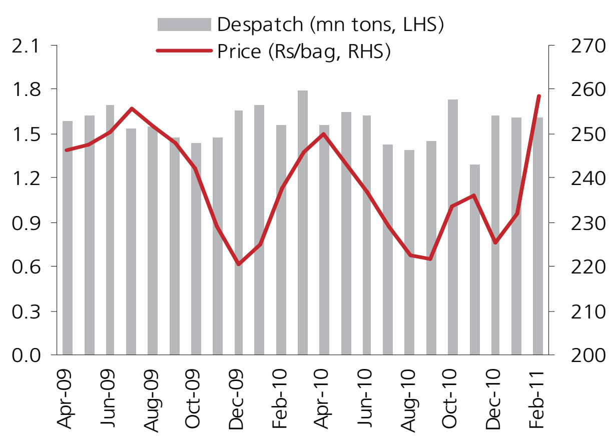
Source: Company, Kotak Institutional Equities

Exhibit 72: Well-diversified portfolio
Sales mix of UTCEM in FY2010 (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 73: Uptrend in pricing from January 2011
Monthly despatch and estimated prices for UTCEM, April-2009 – January-2011 (mn tons, %)



Note:
Volumes prior to July-2010 includes volumes of Samruddhi Cement

Source: Company, Kotak Institutional Equities estimates

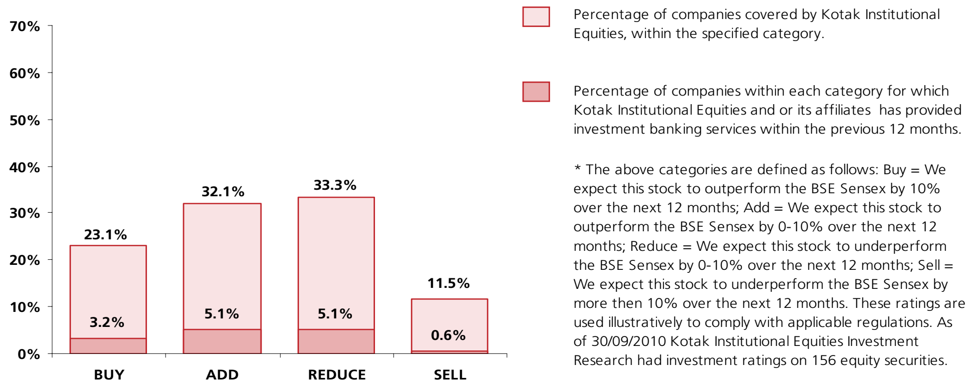
Exhibit 74: Profit model, balance sheet and cash model of Ultratech, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	55,092	63,831	70,497	135,363	188,234	213,988
EBITDA	**17,198**	**17,075**	**19,430**	**28,702**	**44,985**	**55,055**
Other income	999	1,036	1,227	2,255	3,008	3,453
Interest	(757)	(1,255)	(1,175)	(2,853)	(2,814)	(2,257)
Depreciation	(2,372)	(3,230)	(3,881)	(7,403)	(8,674)	(9,320)
Pretax profits	15,067	13,625	15,601	20,700	36,506	46,931
Tax	(4,994)	(3,844)	(4,949)	(6,492)	(11,564)	(15,808)
Net profits	**10,073**	**9,781**	**10,652**	**14,208**	**24,942**	**31,123**
Extraordinary items	—	—	—	—	—	—
Earnings per share (Rs)	**81**	**79**	**88**	**52**	**91**	**114**
Balance sheet (Rs mn)						
Total equity	—	—	—	104,738	128,077	157,597
Deferred taxation liability	—	—	—	19,201	19,987	22,606
Total borrowings	—	—	—	38,973	34,473	25,823
Currrent liabilities	253	1,189	1,733	36,064	48,838	55,337
Total liabilities and equity	**253**	**1,189**	**1,733**	**198,976**	**231,375**	**261,363**
Cash	12,032	12,571	13,887	11,415	18,819	31,468
Current assets	12,786	12,427	12,991	35,815	49,484	56,143
Total fixed assets	—	—	—	133,072	144,398	155,078
Investments	—	—	629	18,674	18,674	18,674
Total assets	**24,818**	**24,998**	**27,506**	**198,976**	**231,375**	**261,363**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	11,008	13,732	13,335	25,520	36,385	44,684
Working capital	3,615	193	541	1,144	(895)	(159)
Capital expenditure	(17,741)	(8,226)	(2,592)	(114,317)	(20,000)	(20,000)
Investments	3,087	(8,639)	(6,348)	—	—	—
Free cash flow	**(31)**	**(2,940)**	**4,937**	**(87,653)**	**15,490**	**24,525**

Source: Company, Kotak Institutional Equities estimates

"I, Murtuza Arsiwalla, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe
Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2010 Kotak Institutional Equities Investment Research had investment ratings on 156 equity securities.

Source: Kotak Institutional Equities As of September 30, 2010

Analyst coverage
Companies that the analyst mentioned in this document follow

Covering Analyst: Murtuza Arsiwalla	
Company name	**Ticker**
ACC	ACC.BO
Adani power	ADAN.BO
CESC Limited	CESC.BO
Coal India	COAL.BO
Grasim Industries	GRAS.BO
Gujarat Ambuja Cements	GACM.BO
India Cements	ICMN.BO
Jaiprakash Associates	JAIA.BO
Jindal Steel and Power	JNSP.BO
JSW Energy	JSWE.BO
Lanco Infratech	LAIN.BO
NHPC	NHPC.BO
NTPC	NTPC.BO
Reliance Infrastructure	RLIN.BO
Reliance Power	RPOL.BO
Shree Cement	SHCM.BO
Tata Power	TTPW.BO
UltraTech Cement	ULTC.BO

Source: Kotak Institutional Equities research

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

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Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120

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